THE
HOME UNIVERSITY LIBRARY
OF MODERN KNOWLEDGE

A COMPREHENSIVE SERIES OF NEW
AND SPECIALLY WRITTEN BOOKS

EDITORS:

Prof. GILBERT MURRAY, D.Litt., LL.D., F.B.A.
The Rt. Hon. HERBERT FISHER, LL.D., F.B.A.
Prof. J. ARTHUR THOMSON, M.A., LL.D.
Prof. WILLIAM T. BREWSTER, M.A.

256 pages. - - - - In cloth binding.

HISTORY AND GEOGRAPHY

3. THE FRENCH REVOLUTION. By Hilaire Belloc, M.A. (With Maps.)
4. A SHORT HISTORY OF WAR AND PEACE. By G. H. Perris.
8. POLAR EXPLORATION. By Dr W. S. Bruce, F.R.S.E., Leader of the *Scotia* Expedition. (With Maps.)
12. THE OPENING-UP OF AFRICA. By Sir H. H. Johnston, G.C.M.G., F.Z.S. (With Maps.)
13. MEDIÆVAL EUROPE. By H. W. C. Davis, M.A. (With Maps.)
14. THE PAPACY AND MODERN TIMES (1303-1870). By William Barry, D.D.
23. HISTORY OF OUR TIME (1885-1913). By G. P. Gooch, M.A.
25. THE CIVILISATION OF CHINA. By H. A. Giles, LL.D., Professor of Chinese at Cambridge.
29. THE DAWN OF HISTORY. By J. L. Myres, M.A., F.S.A.
33. THE HISTORY OF ENGLAND. By Prof. A. F. Pollard, M.A. (With a Chronological Table.)
34. CANADA. By A. G. Bradley.
37. PEOPLES AND PROBLEMS OF INDIA. By Sir T. W. Holderness, K.C.S.I.
42. ROME. By W. Warde Fowler, M.A.
48. THE AMERICAN CIVIL WAR. By F. L. Paxson.
51. WARFARE IN BRITAIN. By Hilaire Belloc, M.A.
55. MASTER MARINERS. By J. R. Spears.

61. NAPOLEON. By the Rt. Hon. HERBERT FISHER, LL D., F.B.A.
66. THE NAVY AND SEA POWER. By DAVID HANNAY.
71. GERMANY OF TO-DAY. By CHARLES TOWER.
82. PREHISTORIC BRITAIN. By ROBERT MUNRO, M.A., M.D., LL.D., F.R.S.E. (Illustrated.)
91. THE ALPS. By ARNOLD LUNN. (Illustrated.)
92. CENTRAL AND SOUTH AMERICA. By Prof. W R. SHEPHERD. (Maps.)
97. THE ANCIENT EAST. By D. G. HOGARTH, M.A. (Maps.)
98. WARS BETWEEN ENGLAND AND AMERICA. By Prof. T. C. SMITH, M.A.
100. HISTORY OF SCOTLAND. By Prof. R. S. RAIT.
101. BELGIUM. By R. C. K. ENSOR. (Maps.)
105. POLAND. By Prof. W. ALISON PHILLIPS. (With Maps.)
107. SERBIA. By L. F. WARING.
108. OUR FORERUNNERS. A Study of Palæolithic Man's Civilisations in Western Europe and the Mediterranean Basin. By M. C. BURKITT, M.A., F.S.A. (Illustrated.)

LITERATURE AND ART

2. SHAKESPEARE. By JOHN MASEFIELD.
27. ENGLISH LITERATURE: MODERN. By G. H. MAIR, M.A.
35. LANDMARKS IN FRENCH LITERATURE. By G. L. STRACHEY.
39. ARCHITECTURE. By Prof. W. R. LETHABY. (Illustrated.)
43. ENGLISH LITERATURE: MEDIÆVAL. By Prof. W. P. KER, M.A.
45. THE ENGLISH LANGUAGE. By L. PEARSALL SMITH, M.A.
52. GREAT WRITERS OF AMERICA. By Prof. J. ERSKINE and Prof. W. P. TRENT.
63. PAINTERS AND PAINTING. By Sir FREDERICK WEDMORE. (With 16 half-tone Illustrations.) From the Primitives to the Impressionists.
64. DR JOHNSON AND HIS CIRCLE. By JOHN BAILEY, M.A.
65. THE LITERATURE OF GERMANY. By Prof. J G. ROBERTSON, M.A., Ph.D.
70. THE VICTORIAN AGE IN LITERATURE. By G. K. CHESTERTON.
73. THE WRITING OF ENGLISH. By W. T. BREWSTER, A.M., Professor of English in Columbia University.
75. ANCIENT ART AND RITUAL. By JANE E HARRISON, LL.D., D.Litt.
76. EURIPIDES AND HIS AGE. By GILBERT MURRAY, D.Litt., LL.D., F.B.A.
87. CHAUCER AND HIS TIMES. By GRACE E. HADOW.
89. WILLIAM MORRIS: HIS WORK AND INFLUENCE. By A. CLUTTON BROCK.
93. THE RENAISSANCE. By EDITH SICHEL.
95. ELIZABETHAN LITERATURE. By J M. ROBERTSON, M.P.
99. AN OUTLINE OF RUSSIAN LITERATURE. By Hon. MAURICE BARING.
103. MILTON. By JOHN BAILEY, M.A.

SCIENCE

7. MODERN GEOGRAPHY. By Marion I. Newbigin, D.Sc.
9. THE EVOLUTION OF PLANTS. By Dr D. H. Scott, M.A., F.R.S. (Illustrated.)
17. HEALTH AND DISEASE. By W. Leslie Mackenzie, M.D.
18. INTRODUCTION TO MATHEMATICS. By A. N. Whitehead, Sc.D., F.R.S. (With Diagrams.)
19. THE ANIMAL WORLD. By Prof. F. W. Gamble, F.R.S. With Introduction by Sir Oliver Lodge. (Many Illustrations.)
20. EVOLUTION. By Prof. J. Arthur Thomson, M.A., and Prof. Patrick Geddes.
22. CRIME AND INSANITY. By Dr C. A. Mercier.
23. PSYCHICAL RESEARCH. By Sir W. F. Barrett, F.R.S.
31. ASTRONOMY. By A. R. Hinks, M.A., Chief Assistant, Cambridge Observatory.
32. INTRODUCTION TO SCIENCE. By J. Arthur Thomson, M.A.
36. CLIMATE AND WEATHER. By Prof. H. N. Dickson, D.Sc.Oxon., M.A., F.R.S.E. (With Diagrams.)
41. ANTHROPOLOGY. By R. R. Marett, M.A.
44. THE PRINCIPLES OF PHYSIOLOGY. By Prof. J. G. McKendrick, M.D.
46. MATTER AND ENERGY. By F. Soddy, M.A., F.R.S.
49. PSYCHOLOGY, THE STUDY OF BEHAVIOUR. By Prof. W. McDougall, F.R.S., M.B.
53. THE MAKING OF THE EARTH. By Prof. J. W. Gregory, F.R.S. (With 38 Maps and Figures.)
57. THE HUMAN BODY. By Prof. Sir A. Keith, M.D., LL.D. (Illustrated.)
58. ELECTRICITY. By Gisbert Kapp, D.Eng. (Illustrated.)
62. THE ORIGIN AND NATURE OF LIFE. By Dr Benjamin Moore, Professor of Bio-Chemistry, University College, Liverpool.
67. CHEMISTRY. By Raphael Meldola, F.R.S. Presents clearly the way in which chemical science has developed, and the stage it has reached.
72. PLANT LIFE. By Prof. J. B. Farmer, D.Sc., F.R.S. (Illustrated.)
78. THE OCEAN. A General Account of the Science of the Sea. By Sir John Murray, K.C.B., F.R.S. (Colour Plates and other Illustrations.)
79. NERVES. By Prof. D. Fraser Harris, M.D., D.Sc. (Illustrated.) A description, in non-technical language, of the nervous system, its intricate mechanism, and the strange phenomena of energy and fatigue, with some practical reflections.
86. SEX. By Prof. Patrick Geddes and Prof. J. Arthur Thomson, LL.D.
88. THE GROWTH OF EUROPE. By Prof. Grenville Cole. (Illustrated.)
109. COMMERCIAL GEOGRAPHY. By Marion I. Newbigin, D.Sc.

PHILOSOPHY AND RELIGION

15. MOHAMMEDANISM. By Prof. D. S. Margoliouth, M.A., D.Litt.
40. THE PROBLEMS OF PHILOSOPHY. By the Hon. Bertrand Russell, F.R.S.
47. BUDDHISM. By Mrs Rhys Davids, M.A.
50. NONCONFORMITY: ITS ORIGIN AND PROGRESS. By Principal W. B. Selbie, M.A.

54. ETHICS. By G. E. Moore, M.A.
56. THE MAKING OF THE NEW TESTAMENT. By Prof B. W. Bacon, LL.D., D.D.
60. MISSIONS: THEIR RISE AND DEVELOPMENT. By Mrs Creighton.
68. COMPARATIVE RELIGION. By Prof. J. Estlin Carpenter, D.Litt.
74. A HISTORY OF FREEDOM OF THOUGHT. By J. B. Bury, Litt.D., LL.D.
84. LITERATURE OF THE OLD TESTAMENT. By Prof. George Moore, D.D., LL.D.
90. THE CHURCH OF ENGLAND. By Canon E. W. Watson.
94. RELIGIOUS DEVELOPMENT BETWEEN THE OLD AND NEW TESTAMENTS. By Canon R. H. Charles, D.D., D.Litt.
102. HISTORY OF PHILOSOPHY. By Clement C. J. Webb.

SOCIAL SCIENCE

1. PARLIAMENT. Its History, Constitution, and Practice. By Sir Courtenay P. Ilbert, G.C.B., K.C.S.I.
5. THE STOCK EXCHANGE. By F. W. Hirst, Editor of *The Economist*.
6. IRISH NATIONALITY. By Mrs J. R. Green.
10. THE SOCIALIST MOVEMENT. By J. Ramsay MacDonald, M.P.
11. CONSERVATISM. By Lord Hugh Cecil, M.A., M.P.
16. THE SCIENCE OF WEALTH. By J. A. Hobson, M.A.
21. LIBERALISM. By L. T. Hobhouse, M.A.
24. THE EVOLUTION OF INDUSTRY. By D. H. Macgregor, M.A.
26. AGRICULTURE. By Prof. W. Somerville, F.L.S.
30. ELEMENTS OF ENGLISH LAW. By W. M. Geldart, M.A., B.C.L.
38. THE SCHOOL: AN INTRODUCTION TO THE STUDY OF EDUCATION. By J. J Findlay, M.A., Ph.D.
59. ELEMENTS OF POLITICAL ECONOMY. By Sir S. J. Chapman, K.C.B.
69. THE NEWSPAPER. By G. Binney Dibblee, M.A. (Illustrated.) The best account extant of the organisation of the newspaper press, at home and abroad.
77. SHELLEY, GODWIN, AND THEIR CIRCLE. By H. N. Brailsford, M.A.
80. CO-PARTNERSHIP AND PROFIT-SHARING. By Aneurin Williams, M.A.
81. PROBLEMS OF VILLAGE LIFE. By E. N. Bennett, M.A.
83. COMMON-SENSE IN LAW. By Prof. P. Vinogradoff, D.C.L.
85. UNEMPLOYMENT. By Prof. A. C. Pigou, M.A.
96. POLITICAL THOUGHT IN ENGLAND: FROM BACON TO HALIFAX. By G. P. Gooch, M.A.
104. POLITICAL THOUGHT IN ENGLAND: FROM SPENCER TO THE PRESENT DAY. By Ernest Barker, M.A.
106. POLITICAL THOUGHT IN ENGLAND: THE UTILITARIANS FROM BENTHAM TO J. S. MILL. By W. L. Davidson, M.A., LL.D.

Many other future volumes in preparation.

LONDON: WILLIAMS AND NORGATE
And of all Bookshops and Bookstalls.

HOME UNIVERSITY LIBRARY
OF MODERN KNOWLEDGE

UNEMPLOYMENT

By A. C. PIGOU, M.A.

London
WILLIAMS & NORGATE

HENRY HOLT & Co., New York
Canada: RYERSON PRESS, Toronto
India: Burns, Oates & Washbourne, Ltd.

HOME UNIVERSITY LIBRARY

OF

MODERN KNOWLEDGE

Editors:

HERBERT FISHER, M.A., F.B.A., LL.D.

PROF. GILBERT MURRAY, D.LITT., LL.D., F.B.A.

PROF. J. ARTHUR THOMSON, M.A., LL.D.

PROF. WILLIAM T. BREWSTER, M.A. (Columbia University, U.S.A.)

NEW YORK
HENRY HOLT AND COMPANY

Ex Libris
C. K. OGDEN

UNEMPLOYMENT

BY

A. C. PIGOU, M.A.

PROFESSOR OF POLITICAL ECONOMY IN THE UNIVERSITY OF CAMBRIDGE

AUTHOR OF "THE PRINCIPLES AND METHODS OF INDUSTRIAL PEACE," "PREFERENTIAL AND PROTECTIVE IMPORT DUTIES," "WEALTH AND WELFARE," ETC.

LONDON
WILLIAMS AND NORGATE

First printed . . . *December* 1913
Reprinted . . . *February* 1924

PRINTED IN GREAT BRITAIN

UNIVERSITY OF CALIFORNIA
SANTA BARBARA
HF
5706
P5

PREFACE

I AM indebted to Messrs. Macmillan for permission to make use in this volume of a few passages from my books *Wealth and Welfare* and *The Principles and Methods of Industrial Peace* published by them. These passages appear within inverted commas, and page references to their position in the books from which they are taken are given in the notes. I have also to thank Mr. Terence Hickman for valuable help in the revision of the manuscript and for making the index; and Mr. Philip Baker for extensive criticisms and suggestions, by the adoption of which the book has, I think, been very much improved.

A. C. PIGOU.

King's College, Cambridge,
November 1913.

The following volumes of kindred interest have already been published in this Library:

24. The Evolution of Industry. Prof. D. H. MacGregor.
16. The Science of Wealth. John A. Hobson, M.A.
59. Political Economy. Prof. J. S. Chapman.
80. Co-partnership and Profit-sharing. Aneurin Williams, M.A.
10. The Socialist Movement. J. R. MacDonald, M.P.
11. Conservatism. Lord Hugh Cecil, M.P.
21. Liberalism. Prof. L. T. Hobhouse.

CONTENTS

CHAP.		PAGE
I	INTRODUCTION	9
II	THE MEANING AND MEASUREMENT OF UNEMPLOYMENT	12
III	THE EVIL EFFECTS OF UNEMPLOYMENT .	29
IV	SOME POPULAR EXPLANATIONS OF UNEMPLOYMENT	35
V	UNEMPLOYMENT IN A STATIONARY STATE .	51
VI	THE PLASTICITY OF WAGE-RATES . .	75
VII	THE CAUSES OF FLUCTUATIONS . .	93
VIII	CYCLICAL MOVEMENTS	112
IX	INDUSTRIAL DISPUTES	128
X	THE MOBILITY OF LABOUR . . .	146
XI	DIRECT STATE ACTION TO LESSEN UNEMPLOYMENT	170
XII	THE DISTRIBUTION OF UNEMPLOYMENT .	190

CHAP.		PAGE
XIII	INSURANCE AGAINST UNEMPLOYMENT	203
XIV	THE RELIEF OF THE UNEMPLOYED	228
XV	CONCLUSION	241
	NOTES	248
	BIBLIOGRAPHY	253
	INDEX	255

UNEMPLOYMENT

CHAPTER I

INTRODUCTION

It is thought by many that the attitude of economists in the face of obvious social evils is unduly contemplative; that conditions, which involve the misery of untold thousands and the withering of incalculable human promise, are for them no more than the theme for ingenious disquisitions, and the excuse for a number of scarcely comprehensible formulæ. Assuredly this is a mistaken view. The compelling motive that leads men to economic study is seldom a mere academic or scientific interest in the movements of the great wheel of wealth. It is rather the sense that, in the world of business and of labour, justice stands with biassed scales; that men, women and children stagger often into an abyss that *might* be fenced and guarded; that the lives of many are darker than they need be; that the wealth, on which western nations pride themselves,

bears but a faded flower of welfare. In these things lies the impulse to economic investigation; and the removal, or at least the mitigation, of the evils they portray is the goal of the economist's search. In the ideal of which he dreams, and, be it hoped, in the ardour and constancy of his vision of it, there is nothing that need divide him from the fiercest orator of the market-place.

What distinguishes economists from the less patient among practical philanthropists is not the spirit, but the method, of their work. They hold—and this belief is the result of the best thought of many minds—that the various aspects of the economic life of any modern country are bound together in an intimate unity. The consequence is that attempts to deal with any particular evil, as it appears at one point, may often be followed by important and not at all obvious effects, breaking out elsewhere and capable of more than neutralizing whatever immediate good may have been done. The only way in which it is possible to contrive measures of social improvement that shall be free from this great danger is to found them upon a close and thorough study of economic life as a whole. If the "art" of social reform is to be effective, the basis of it must be laid in a "science." The contribution towards the work of practice that

economists aspire to make is to provide for it this foundation. Their effort, though it may well be roused to action by the emotions, itself necessarily lies within the sphere of the intellect. Resentment at the evils investigated must be controlled, lest it militate against scientific exactitude in our study of their causes. Pity however sincere and grief however real are here intruders to be driven ruthlessly away. Stirred by their appeal we have entered the temple of science. Against them its doors are closed, and they must wait without for our return.

This volume is the work of an economist, and aspires, therefore, after the cold clarity of science. The *tone* of it is explained by this consideration. The *form* which has been adopted is determined by another circumstance. The book is addressed to a public consisting, for the most part, of persons who are in no way familiar with economic analysis. In view of this fact, an earnest endeavour has been made to avoid the use of technical terms, and to conduct the discussion in such language and in such a manner as to be intelligible to the ordinary citizen. But the problem of Unemployment is of so complex a nature that portions of the argument must inevitably appear difficult to persons unaccustomed to close reasoning on these matters. Further-

more—so far-reaching are the interconnections between different aspects of economic life—portions of it will probably seem, at first sight, remote from the main theme of the volume. These obstacles to understanding may readily be overcome by the careful reader. It is beyond the power of the author wholly to remove them from his path. For, though such a book as this is made better by an avoidance of the *language* of economic science, its value would be wholly destroyed if the *method* of science were abandoned. That method I am resolved to follow unswervingly throughout. The next chapter, therefore, will be devoted to a preliminary discussion of definition and measurement—a discussion which is necessarily somewhat tedious, but which, in view of the statistical ineptitude of much current writing, cannot safely be omitted.

CHAPTER II

THE MEANING AND MEASUREMENT OF UNEMPLOYMENT

UNEMPLOYMENT is one of those many terms in common use, the general significance of which is understood by all, but which it is,

nevertheless, somewhat difficult to define with accuracy. Are we, for example, to include among the unemployed those who are idle because they do not want to work? Are we to include sick persons, or workmen out on strike, or the various classes of individuals who are, for one reason or another, "unemployable"? Any decision upon these points is necessarily more or less arbitrary. There is no matter of principle involved: it is simply a question of the precise sense in which it is most convenient to use a particular common word. Hence, there are two conditions, and two only, that our definition must obey. It must be so fashioned as to prove a useful tool in the investigation we have in hand; and it must, subject to that condition, conform as closely as possible to the general drift of popular usage. The search for a definition, upon which we now enter, must be guided and controlled by these two tests.

At the outset, it may be laid down that the term Unemployment should be used exclusively in relation to the sphere of work for wages. It is both contrary to usage and inconvenient for the purpose of our present problem to include among the "unemployed" those members of the professional, employer, or salaried classes, who are, either from choice or from necessity, from time to time

unoccupied. Hence, unemployment means unemployment among the wage-earning classes. Furthermore, it means unemployment among those classes in respect of wage-work. If a wage-earner happens to possess an allotment on which he can work when discharged from his ordinary trade, or if he is able, on these occasions, to turn his hand to wood-carving or some other domestic industry, we shall not, for that reason, decline to class him among the unemployed. Of course, the *effects* of unemployment in the case of such a man are very different from its effects on one who has no alternative non-wage-yielding occupation; and this distinction is not without practical importance. But convenience and usage alike decree that a wage-earner, unemployed at wage-work, shall be classed, whatever he is, in fact, doing, among the unemployed. The only persons then of whom unemployment *may* be predicated are wage-earners, and of these unemployment *must* be predicated when they are unemployed in respect of wage-work.

Even, however, when this is understood, it does not become possible to pass directly to a definition of unemployment. For unemployment clearly does not include all the idleness of wage-earners, but only *that part of it which is, from their point of view and in their existing condition at the time, involuntary.*

There is, therefore, excluded the idleness of those who are definitely incapacitated from wage-earning work by extreme old age, infirmity or temporary sickness. There is also excluded the idleness of those who are idle, not from necessity, but from choice. The fact that workpeople work eight or ten or twelve hours a day, instead of twenty-four, does not constitute the remaining hours of the day a period of unemployment. Yet again, there is excluded the idleness of the great mass of the vagrant class, whose ambition is, in large part, just to avoid work. And, finally, there is excluded the "playing" of those workpeople who are idle on account of a strike or a lock-out. Though, however, at first sight, the line of demarcation between unemployment and those forms of idleness, which are not involuntary, and which do not, therefore, fall under the name, seems fairly clear, reflection soon reveals a serious defect in the rough presentation of it that has just been attempted. For, whether a man wishes to work or to be idle, and, if he wishes to work, whether he wishes to work much or little, are not questions to which absolute answers can be given. Rather, the answers must depend on the rate of wage that is to be obtained as a reward of working. Hence, it appears that some greater precision of definition is

required. The amount of unemployment, let us therefore say, which exists in any industry, is measured by the number of hours' work—assuming, of course, a given efficiency for each hour's work—by which the employment of the persons " attached to " or " occupied in " that industry falls short of the number of hours' work that these persons would have been willing to provide at the current rate of wages under current conditions of employment. The precise definition of this rate and these conditions presents considerable difficulty. It has, however, been accomplished with reasonable success by the draftsmen of the British National Insurance Act. Unemployment prevails, from the point of view of that Act, when a man cannot obtain the work he desires (1) otherwise than in a situation vacant on account of a stoppage of work due to an industrial dispute, (2) in the district where he was last ordinarily employed, otherwise than at a rate lower, or on conditions less favourable, than those which he habitually obtained in his usual employment in that district, or would have obtained had he continued to be so employed, (3) in any other district, otherwise than at a rate of wage lower, or on conditions less favourable, than those generally obtained in such district by agreement between associations of employers and

of workmen, or, failing any such agreement, than those generally recognized in such district by good employers.[1] Unemployment, thus conceived, does not, it will be noticed, stand in any constant relation to the quantity of work performed, even within a single industry in which the length of the normal working-day is given. For, over any period of time, the same aggregate quantity of work may be associated, either with little unemployment balanced against little overtime, or with much unemployment balanced against much overtime. This circumstance is responsible, it must be admitted, for a certain awkwardness in our definition; but it is an awkwardness which cannot be avoided.

The result which has been reached has the advantage of being reasonably precise. And it has also, as will appear from the general course of this discussion, the further advantage of being well adapted to facilitate the conduct of our inquiry. It must, however, be clearly recognized that the definition we have decided to adopt departs in one important respect from the popular use of words. In common speech, unemployment is not infrequently contrasted with short time or the working of a reduced number of days in the week. In our definition these things appear as parts, or particular forms, of unemployment.

It would have been possible to avoid this departure from common usage, had we retained the ordinary meaning of the terms unemployment and short-time, and introduced a new term "involuntary idleness," to represent both of them together. On the whole, the objections to that course seem somewhat stronger than those to the course that is here adopted. Some readers, no doubt, would have preferred that recourse should have been had to it. After all, however, the issue is a verbal one. So long as it is clearly borne in mind that the term unemployment is used in this book to cover short-time and short-work as well as unemployment as popularly conceived, no misunderstanding can possibly result.

The problem of definition being thus settled, we may turn to the second and remaining topic of this preliminary chapter. How far and for what purposes is it practicable to submit the unemployment that prevails in modern States to reliable measurement? The answer to that question must, of course, be different in different countries, according to the character of the statistical material available in them. It may be said at once that, in every case, this material is exceedingly incomplete and imperfect, and that, in no case, is any *comparison* between the amount of unemployment prevailing in any two countries practicable.

Any more detailed statement concerning the statistics of foreign countries would fall outside the scope of this volume. As regards the United Kingdom, however, it will be worth while to consider the problem of measuring unemployment a little more closely.

The National Insurance Act has made available new data as regards the building and engineering trades, in which insurance against unemployment is now compulsory. When certain difficulties as to the classification of the various sub-divisions of these trades have been cleared up, this new information is likely to prove of great importance, both directly and also as a check upon our other statistical sources.[2] As yet, however, the time has hardly arrived at which a study of this information—and, still less, of the indirect inferential information obtainable from Part I of the Insurance Act—can be profitably undertaken. The new data, therefore, will not be considered here. Apart from them, our principal sources of information are embraced in two groups of figures, referring, respectively, to industries in which periods of depression are chiefly met by working short time, and to industries in which they are chiefly met by the dismissal of hands. Among industries addicted to the practice of short-time, coal-mining and various departments

of the iron and steel trades furnish statistical information. The Board of Trade obtains returns from the majority of employers engaged in them as to the number of days on which men are at work, the number of furnaces that are in blast and the number of shifts that are worked. Among industries in which dismissal of hands is generally resorted to in preference to short-time, a large number, to wit the engineering, ship-building, cutlery, printing, book-binding, wood-working and building trades, also furnish statistical information. The Board of Trade obtains returns as to the number of Trade Unionists engaged in these occupations who are in receipt of unemployment benefit—which means that they are out of work neither on account of sickness * nor because they are engaged in an industrial dispute—at the end of every month. These two sets of figures both appear at first sight to provide measures of unemployment, in the sense in which that term has been here defined, as regards those parts of the industrial field to which they refer. Before, however, a proper judgment can be formed as

* In France the Trade Union figures of unemployment include those who are out of work on account of sickness. This is one of the many circumstances that vitiate fiscal and other arguments founded on a direct comparison of the unemployment statistics of France and the United Kingdom.

to their meaning and significance, several important questions must be asked, and, so far as practicable, answered.

The first question is: how far do these figures afford at any time a true measure of the quantity of unemployment prevailing among those groups of workpeople to whom they immediately refer? As regards the figures collected from employers concerning the number of days worked in mines and so forth, the matter seems clear enough. Apart from mere clerical errors, these figures provide a correct measure of the volume of employment under the hand of the employers making the returns. But it is not possible, from the volume of *employment*, to infer a precisely true figure of *unemployment*, because the number of men attached to the industry in question and prepared for full work there if they can get it, is liable to variations, and these variations are not recorded. On the face of things, the figures collected from Trade Unions are more satisfactory. Even here, however, there are several sources of possible error. The chief of these is connected with the fact that the Trade Union percentage refers to the men in receipt of unemployment benefit, whereas there are apt to be some men unemployed who are not in receipt of this benefit. These include,

not only the men who are too lazy to claim benefit, but also those who have been out of work either too long or not long enough to be entitled to claim it. The risk of error from this source is, however, much smaller in the United Kingdom than it is elsewhere. Whereas, for example, in Germany benefit as a rule (in 90 per cent. of the Unions) lasts for less than ten weeks, in England only 11 per cent. of the Unions have so short a period. Again, whereas in the German Unions benefit is deferred till from seven to fifteen days of unemployment have been passed, in the British Unions it begins after from two to six days of unemployment.[3] Furthermore, in British Unions the Labour Department, to some extent, corrects from outside information the figures in respect of those whose benefit has run out. On the whole, it appears that, while the statistics collected from employers as to the number of days worked in mines and the number of shifts worked in iron and steel mills do not yield a reliable figure of the unemployment prevailing there, the statistics collected from Trade Unions, in the other broad class of industries, are fairly satisfactory as regards those groups of workpeople to which they immediately refer.

We may, therefore, pass on to a second question. Given that the percentage of un-

employment returned by a Union measures the real unemployment in that Union with sufficient correctness, does it measure satisfactorily the real unemployment in the trade of which the Union forms a part? The most obvious difficulty here is that, in most industries, only a small proportion of the workpeople employed are Unionists. The Board of Trade estimates that, of all the *men* employed throughout the United Kingdom, 70 per cent. of those engaged in mining and quarrying are Unionists: 1 in 5 of those engaged in building: 1 in 4 of those in metal work, engineering and shipbuilding: 1 in 2 in the textile trades: 1 in 5 in clothing; 1 in 4 in railways;[4] while other industries, notably, of course, agriculture, are even less well organized. This being so, it is necessarily uncertain how far the percentage of unemployment among Trade Union members in any industry is a fair measure of unemployment among non-Unionists also. On the one hand, Unionists are possessed of an effective organization for helping them to obtain employment when out of work; but, on the other hand, non-Unionists are free, whereas Unionists are not free, to accept the offer of jobs at less than the "standard" rate. What the resultant effect of these conflicting tendencies may be is not definitely known.

Information supplied in the first Report on the working of the Unemployment Insurance law in England gives, however, some ground for the opinion that Trade Union figures are reasonably representative of the whole of the trades to which the Unions belong. For, from a study of the statistics of unemployment among Unionist and non-Unionist members of the compulsorily insured trades, Mr. Beveridge concludes: "there is nothing to suggest any substantial difference between the proportion of cases of unemployment among the members of associations and among those not belonging to associations." [5]

If, when allowance has been made for the preceding qualifications, we are satisfied that the Trade Union figures in a trade for which returns are made give a fair measure of unemployment in that trade, we have next to ask a third question: how far will a combination of the figures furnished by the various Trade Unions afford a fair measure over the aggregate of industries making returns? An important consideration becomes relevant here. The combined figure, which is commonly employed in the United Kingdom, is constructed in such a way that the "weight," or importance, attached to the percentage of unemployment recorded for any industry is proportioned to the number of men *in respect*

of whom returns are made in that industry. Since, however, out-of-work benefit is more likely to be arranged for by men who expect to be thrown out of work a good deal than by men who do not expect this, it is probable that the number of returns relatively to the number of employees will be larger in the more fluctuating industries, such as engineering and shipbuilding, than in the more stable industries. Hence, an average like the British official average is likely to exaggerate the true percentage of unemployment in the whole group of industries, in respect of which we have Trade Union returns. A more accurate result would be given by an average arrived at by attaching importance to the percentage of unemployment recorded in different industries in proportion, not to the number of returns they supply, but to the number of workpeople found by the census enumerators to be occupied in them. The difference made by this change may be considerable. In 1895, of the persons covered by the returns obtained, 46 per cent. were occupied in the metal industries, 21 per cent. in building and furnishing, 19 per cent. in printing, 10 per cent. in coal, 3 per cent. in textiles and 1 per cent. in other trades. Sir H. Llewellyn Smith found that, by weighting with the census figures, on an occasion used

for a test, he reduced the resultant percentage from 7 to 4·2.[6] In like manner, Mr. Beveridge found that, while, with weighting in proportion to the number of returns, the unemployment percentage was larger in 1893 than in 1904, with the census system, which reduced the importance attached to the special misfortunes suffered in 1893 by shipbuilders and engineers, it was smaller in 1893.[7] Hence, it would seem that the British official figure requires careful analysis before it is employed as an index of aggregate unemployment in the trades making returns.

Even granted, however, that an adequate measure of unemployment in the aggregate of trades making returns has been obtained, we have still to ask, finally, whether that figure gives a true picture of unemployment in the country as a whole. The trades for which returns are not available contain two broad divisions, the exceptionally stable skilled occupations, such as railway service, and the great bulk of unskilled occupations. In the former group insurance against unemployment is not found, because employment is steady; in the latter group it is not found because the workpeople concerned are too poor to afford it. We have good reason to believe that the proportion of unemployment experienced by the uninsured

skilled occupations is smaller than that experienced by the trades making returns; but of the state of things prevailing among unskilled workpeople we are wholly ignorant. Even though all other difficulties were successfully overcome, this ignorance would make it impossible to derive from existing statistics any measure of the aggregate amount of unemployment prevailing throughout the country. The Board of Trade figure, or some other figure, constructed from the Trade Union returns on the basis of a different system of "weights," may, no doubt, be used with fair confidence as an index of the direction in which unemployment in the country as a whole is moving—whether it is becoming larger or smaller—between different times; but it cannot safely be used as a measure of the absolute quantity of unemployment existing in the country at any one time. We are able to define unemployment and to detect its growth and diminution, but adequately to measure its quantity is a task to which our resources are at present unequal. Until this is fully understood, the chart which is printed on the following page may lead to rash and ill-grounded inferences. When it is understood, however, the study of that chart should facilitate and throw light upon the investigation that is to follow. The percentage figures

AVERAGE ANNUAL PERCENTAGE OF TRADE UNIONISTS RETURNED AS UNEMPLOYED IN THE U.K.

This chart is compiled from the "corrected" table of unemployment percentages published in the *Fifteenth Abstract of Labour Statistics of the United Kingdom* (p. 2), and, for the earlier years, from the Board of Trade Memorandum compiled for the Royal Commission on the Poor Laws [Cd. 5068], p. 598. The corrected table is obtained with the help of a system of "weighting," under which a constant weight of one-half is given to the engineering, shipbuilding and metal trades throughout the whole period. The reasons which make this system desirable are explained in a Board of Trade Memorandum published in [Cd. 2337], pp. 79–85.

there represented gain in vividness and meaning, when we recollect that, if every workman changed his occupation once a year and took three days in the process, an annual average of about one per cent, unemployment would result.

CHAPTER III

THE EVIL EFFECTS OF UNEMPLOYMENT

From the standpoint of this volume the problem of defining and measuring unemployment is, as has already been hinted, of secondary interest. The case is very different, however, with the problem, to which we now turn, of tracing the connection that exists between unemployment and the social evils with which it is associated. This problem is fundamental. From our point of view, the whole significance of unemployment lies in the evil consequences to which it gives birth. Our study is directed wholly to the practical object of mitigating or, so far as may be, abolishing these evils. No effective advance, therefore, can be made till their nature and the relation in which they stand to unemploy-

ment itself have been, at least roughly, determined. In the present chapter I shall attempt some outline account of these matters.

First and most obviously, unemployment usually means loss of wages. The workman unwillingly idle is anxious to do more work than he does in fact do, not, of course, as a general rule, because he likes to do a great deal of work, but because his liking for the wage to which this work leads more than outweighs his dislike of its immediate irksomeness. Generally speaking, a reduction in the volume of unemployment among any group of workpeople would mean an increase in the aggregate earnings of that group, even in those cases where the reduction was brought about by a lowering of some artificially enhanced wage-rate. Hence, we may set down as one element—usually, of course, a very important element—in the social evil involved in unemployment, the loss of earnings which workpeople are anxious, but unable to, obtain by further work.

Unemployment, however, is frequently associated, not only with injury to the total quantity of a workman's earnings over a period of years, but also, in so far as its amount varies from time to time, with fluctuations in those earnings. If foresight were perfect and workpeople were always ready in

times of prosperity to make full provision for the bad times that might follow, this circumstance would have no great importance. As a matter of fact, however, everybody knows that foresight is not perfect, and that workpeople do not, in general, make full provision for rainy days to come. This is the case even when fluctuations of income, due to fluctuations in employment, are regular and capable of being foretold with fair precision—much more when they are irregular and spasmodic. Neither the practice of individual saving nor that of collective insurance has been, or, so far as present indications go, is in the least likely to be developed up to the point of rendering the *expenditure* of working class families completely stable, so long as their *incomes* continue variable. Unemployment, therefore, wherever individuals are affected by it to a different extent at different times, implies variable expenditure. But, when the average level per week of any man's—especially of a poor man's—expenditure is given, it is evident that the satisfaction he can derive from it will be smaller the more variable are the individual weekly expenditures from which the average is made up. Unusually large expenditure in prosperous times does not compensate for unusually small expenditure in seasons of depression, either as

regards immediate enjoyment or as regards indirect and ultimate consequences to health. In extreme cases this is obvious; a week of starvation followed by a week's debauch is not equivalent to a fortnight of moderate subsistence. Thus, we may set out, as a second element in the social evil associated with unemployment, the fact that such unemployment usually falls upon working men with varying force at different times and, consequently, renders their standard of living variable.

The elements of evil discussed so far are associated with all forms of unemployment, even that which appears exclusively in the guise of "short-time." But, when unemployment comes about in such a way that certain individuals are rendered definitely "unemployed" for several weeks, or even months, at a time there emerges a further very important element. This form of unemployment threatens to inflict permanent injury on the industrial character of those on whom it falls. It is not merely that technical skill is injured through lack of practice, though this, in some instances, may be a matter of real significance. The main point is that the habit of regular work may be lost, and self-respect and self-confidence destroyed, so that, when opportunity for work does come,

the man, once merely unemployed, may be found to have become unemployable. The terrible strain that lack of work imposes upon the morale of the unemployed is brought out with great force in a recent American inquiry. "If a period of enforced idleness were a season of recuperation and rest, there would be a good side to lack of employment. But enforced idleness does not bring recuperation and rest. The search for labour is much more fatiguing than labour itself. An applicant sitting in one of the Charity offices waiting for the arrival of the agent, related his experiences while trying to get work. He would rise at five o'clock in the morning and walk three or four miles to some distant point where he had heard work could be had. He went early so as to be ahead of others, and he walked because he could not afford to pay car fare. Disappointed in securing a job at the first place, he would tramp to another place miles away, only to meet with disappointment again. . . . As the man told his story, he drove home the truth that lack of employment means far more than simply a loss in dollars and cents; it means a drain upon the vital forces, that cannot be measured in terms of money." [1] Under a strain of this kind a man's morale may break, and he may pass, never to return, across the line which

separates independent poverty from a shiftless and unworthy pauperism.

Yet another element of evil remains. Unemployment varies in amount from time to time in ways that are uncertain, in the sense that they cannot be foretold. And the uncertainty that attaches to unemployment in the aggregate attaches, of course, in still stronger measure to its incidence in respect of particular individuals. There necessarily results, among those poor persons whose reserve fund is small, a haunting sense of insecurity and danger, which is in itself a serious evil. Sir H. Llewellyn Smith sums up the matter thus : " It is, I think, a definite induction from history and observation that, when a risk falls outside certain limits as regards magnitude and calculability, when, in short, it becomes what I may call a gambler's risk, exposure thereto not only ceases to act as a bracing tonic, but produces evil effects of a very serious kind." [2] In the same spirit Professor Leroy Beaulieu declares, and is surely right in declaring : " It is not the insufficiency of pay which constitutes, in general and apart from exceptional cases, the social malady of to-day, but the precariousness of employment." [3]

What has been said makes it plain that the evil suffered in any country in con-

sequence of unemployment depends, not only on the volume of unemployment which, over an average of good and bad years, prevails there, but also on the way in which this volume is distributed among people, and (be it added for completeness) through time. None the less, it is true that, other things being equal, the amount of evil will be greater, the greater is the average volume of unemployment; and that devices making for a diminution in this average volume would also, in general, make for an increase in national welfare. It is upon the volume of unemployment, therefore,—not the volume existing at any one moment, but the volume interpreted in a more general sense as the average volume prevailing over a long period—that the discussion embodied in the next eight chapters of this work is concentrated.

CHAPTER IV

SOME POPULAR EXPLANATIONS OF UNEMPLOYMENT

As a prelude to the positive part of our inquiry into the causes by which the average volume of unemployment is determined, it is

convenient to pass in review certain popular explanations by which, in this matter, counsel is frequently darkened. These explanations all start from the theory that, as things are at present, "there is not enough work to go round," and they all end in the practical conclusion that, in some way or another, more work ought to be made. Here meet on common ground the enemies of foreign imports, the denouncers of prison-made goods, and those who would cure unemployment by reducing the hours of labour. It is not suggested that all their various diagnoses and various prescriptions involve an equal measure of folly. But they do all embrace, sometimes in association with other errors and sometimes in isolation, the fundamental doctrine which economists have long known by the name of the "work-fund fallacy." They all assert that, if Smith and Jones do less work or do no work at all, there will be more left over for Brown and Robinson: if foreigners stop making motor-cars for our markets, or if prisoners stop making clothes, or if tramway conductors work six hours instead of twelve, by so much is room made for "the unemployed" to be "absorbed." This doctrine has so wide a currency and is, withal, so plausible, that it needs to be examined with considerable care.

What makes the doctrine plausible is the fact that it contains an element of undoubted truth. It is true that, if foreigners or prisoners are prevented from sending to our markets a particular type of goods, say steel billets, there will be more employment available in the particular English industry which is engaged in making these things. And this is not merely a temporary incident, to disappear again so soon as people have adapted themselves to the new conditions. On the contrary, there is every probability that the extra employment available in the particular industry affected will be permanent. As regards each industry separately there *is*, speaking roughly and practically, a fixed work-fund. What more natural than the inference that such a fixed work-fund also exists as regards all a country's industries collectively? Consider more particularly the case of workpeople engaged in industries subject to severe foreign competition. They see, may be, orders which their own employers were willing and eager to supply, going again and again to foreign firms. On special occasions, when their own firm has an exceptional spell of success with its tenders, they experience the full glory of a boom. Meeting other workpeople in other occupations, they find that the case is the same with them.

Each trade knows perfectly well that, if foreign competition with its product were cut off, there would be more work available in it for native hands; and each trade believes its neighbours, when they assert that the case is similar with them. If only, they argue, we could work shoulder to shoulder, and, by political action, keep the foreigner out, there would be work available for us all, and unemployment would become an evil of the past. And reasoning of an exactly similar kind is open to those persons whose products compete with prison-made goods, or those who are desirous of employment in industries where the workmen at present work long hours: if these hours were only halved there would be room for the employment of twice as many men.

Now, it is easy to show that the reasoning process by which these results are attained is defective in point of logic. All arguments, which infer that, because a given policy, if applied to A alone, would benefit A, if applied to B alone, would benefit B, and, if applied to C alone, would benefit C, *therefore*, that policy, if applied at once to A, B and C together, would benefit them all, involve what logicians call the *fallacy of composition*. A famous and orthodox illustration of this fallacy is provided by the industry of picking pockets. If a number of men sit round a table,

it is evidently true that Smith, by taking the purse of his left-hand neighbour, will gain; Jones, by doing likewise to his left-hand neighbour will similarly gain; and so on throughout. But it is fallacious to infer from this that, if every member of the group picks the pocket of his left-hand neighbour, the group as a whole will gain. The secret of the fallacy is, of course, that, in the transition from the effect upon each to the effect upon all, the possibility is ignored that the gain which a policy, when pursued by Smith alone, yields to Smith, may only be obtainable at the cost of corresponding loss to others. The popular argument about unemployment, which was set out above, embodies this defect, and fails, therefore, to establish the conclusion at which it aims. For, from the fact that there is (substantially) a fixed work-fund from the standpoint of each industry separately, it does not follow that there is a fixed work-fund from the standpoint of all industries together.

It would, however, be unwarrantable to conclude that, because the reasons which popular thought offers in defence of any thesis are invalid, therefore, that thesis is untrue. If it were a good ground for rejecting an opinion that many persons entertain it for bad reasons, there would, alas, be few current beliefs left

standing! As a matter of fact, however, conclusions are often right when the reasons adduced by their supporters are ridiculously wrong. It is not undesirable to walk under a builder's ladder *because* to do so is, in some magical manner, "unlucky"; but those who dislike the impact of accidentally descending bricks will, nevertheless, do wisely to refrain. Indeed, the reasoning process, which seeks to rebut a conclusion merely by disproving the cogency of a particular argument used in its support, itself involves a fallacy to which logicians have given a name—the fallacy *ignoratio elenchi*. We are not, therefore, entitled to cut short our inquiry concerning unemployment and the fixed work-fund at the point reached so far. It is still necessary to inquire by direct study whether the extra employment, which would be made available in a particular trade by cutting off the competition of foreigners or prisoners in respect of that trade, would be *nett* extra employment, or would be balanced by a corresponding loss of employment in other industries.

Now, in the case of foreign trade, with regard to which this question has been most prominently raised, it is widely held that a conclusive answer can be given by reference to the essential connection that exists between imports and exports. Broadly speaking, the

goods and services which every country imports must, since exports constitute the only ultimate means of payment for its purchases, be balanced by an equivalent value of goods and services exported. Of course, it is not necessary that the imports of any country from any single foreign country should balance the exports to that country. What is bought in France may be paid for indirectly by exports to Germany, employed, in effect, to discharge the debts of Frenchmen there. Nor is it necessary that the imports of a country, even from the rest of the world collectively, should balance the exports at a particular moment; for, of course, as everybody knows, there is a great deal of borrowing and lending between nations. Nor, finally, is it necessary, even when allowance has been made for loans, that those imports, which are recorded in tables of trade, should balance those exports which are similarly recorded; for there may exist a large mass of services entering into international trade—notably the services rendered by ships and by the banking community—of which no records are kept. With these and other reservations of a minor character, it remains, however, not merely true, but a truism, that a country's exports to the rest of the world must balance her imports, and that therefore,

other things remaining the same, if the imports are diminished, the exports must be diminished to a corresponding extent. In view of this circumstance, it is often argued that whatever increase of employment might be provided in some industries, by restricting the imports of foreign goods that compete with them, would be offset by an approximately equivalent decrease of employment in other industries accustomed to manufacture for export. An exactly parallel argument can be drawn out as regards the effect of prohibitions against the sale of goods made in prisons. In the last resort, these goods are exchanged (within the country, let us suppose) against an equivalent value of other goods. If prisoners are prevented from making them, employment in making them will be given to people outside prisons, but equivalent employment, which these people formerly had in making other goods to exchange for them, will be destroyed. And yet a third exactly parallel argument can be framed as regards the effect on employment of reducing the hours of labour in any industry; the work created by the reduction is balanced by work destroyed amongst those who formerly bought the fruits of the extra hours' labour in the industry.

There is a widespread opinion that this line of argument, at all events in its application

to foreign trade, is decisive. In the view of many writers it completely disproves the contention that the removal or restriction of foreign competition can increase the work available, and so diminish the quantity of unemployment prevailing, in any country. This opinion, however, is incorrect. The fact that a reduction of imports is balanced, other things being equal, by an equivalent reduction of exports does not, of itself, prove that the extra employment created in those of a country's industries, which were formerly exposed to foreign competition, is balanced by an equivalent reduction of employment in those industries which formerly made for export. Possible failures from exact equivalence, due to the fact that equal values of product in different industries are not necessarily responsible for equal quantities of employment, are not here in question. There is a much more fundamental difficulty. It is true, the objector may urge, that Lancashire, for example, would sell less cotton goods abroad, if British imports of foreign manufactures were restricted. But this does not in the least imply that she would sell less cotton goods altogether. On the contrary, those goods which she now exchanges against machines made in Germany and the United States, she could then exchange against

exactly the same machines made in other parts of England and Scotland. In short, the suggestion is that, when competing imports are cut off, corresponding articles will be made by people in the restricting country who would otherwise have been unemployed, and who will now have the wherewithal to purchase goods equivalent to those which the exporting industries formerly sent abroad. Now, we have not, for the moment, to inquire whether or not this suggestion is, in fact, correct. The point is that, whether in fact correct or incorrect, it is not *proved* to be incorrect by any demonstration of equivalence between imports and exports. Consequently, contrary to what is widely believed, such a demonstration does not suffice to show that the new employment created in some native industries by the reduction of imports is offset by an equivalent reduction of employment in the export trades. The case is exactly the same with the analogous arguments concerning the prohibition of prison-made goods and the shortening of the hours of labour.

When this is understood, an attempt is sometimes made to support the argument from the equivalence of imports and exports by an appeal to statistics. If it were really the case, it is urged, that a diminution in the

quantity of competing foreign imports gives room for the manufacture of corresponding goods by persons at home who would otherwise have been unemployed, we should expect unemployment to be greatest in years when competing imports are most numerous, and lowest in years when they are least numerous: and we should expect, further, that, if the mass of competing imports received by any country from abroad expands over a long period, the general average percentage of unemployment in that country will also expand. As a fact, however, in the case of the United Kingdom, statistics are available which directly belie these expectations. When a curve is plotted to represent for the past fifty years the fluctuations in the quantity of manufactured and partly manufactured imports—the main part of the imports of the United Kingdom that can be regarded as competitive—and is set alongside of a curve representing the fluctuations of unemployment among members of Trade Unions, it is found that, instead of the high points on the curve which represents manufactured imports corresponding with the high points on the curve which represents unemployment, and *vice versa*, there is rather a slight correspondence of the opposite kind. On the whole, unemployment appears to

become less in years of booming imports, and greater in years when imports are relatively contracted. Our first expectation, therefore, is not borne out by the facts. And our second expectation is in like case; for, whereas since 1860 the general average, taking one year with another, of British imports of manufactured and partly manufactured goods has risen from an initial thirty millions to more than one hundred and thirty millions, the general average percentage of Trade Unionists out of employment has remained, so far as can be gathered from such statistics as are available, substantially unchanged.[1] In view of these facts, it is argued, the suggestion that the restriction of competing imports would lead to the creation of new employment for workpeople otherwise idle, and not merely to a diversion of employment from one group of industries to another, cannot be sustained. But the argument, though possessed of some weight, is, nevertheless, inconclusive. For it is exposed, in reply, to the suggestion that booming imports of manufactures and diminished unemployment are both due, when they occur, to general influences making for prosperity. The hostile effect of the imports is masked, it is urged, by the operation of these general influences, and, therefore, does not appear in the statis-

tics. None the less, however, it continues to exist, and, if imports were cut down while the general influences were left unaltered, the quantity of unemployment in times of prosperity would be reduced to an even lower level than that which it now attains. This suggestion, though it cannot, of course, be made good by positive evidence, is also incapable of being overthrown by the statistical argument against which it is adduced. That argument, therefore, like the direct argument from the equivalence of imports and exports, fails to prove that a restriction of competing imports is incapable of providing more work for the citizens of a country which undertakes it.

The ineffectiveness of the reasoning we have hitherto been reviewing is easily explained. That reasoning fails to penetrate beneath the surface of appearance to the essential underlying causes. Economists, however, are acquainted with a more adequate analysis. Let us take the point of view of those workpeople in the country who are unemployed, and for whom it is contended that the exclusion of competing imports, the prohibition of prison-labour and the reduction of the normal hours of work would create employment. Why are these people unemployed? They are unemployed because, at the wage

they ask, there is no demand for their services, and, unless the wage they ask is lowered, they can only cease to be unemployed if such a demand comes into being. But whence can such a demand come? It can only come from the general income of the country, that is to say, from the product of the labour and capital of the rest of the community. It follows that the exclusion of competing imports, the prohibition of prison-labour and the reduction of the normal hours of work can create employment for them on one condition and on one condition only; namely, that these devices succeed in rendering the labour and capital of the rest of the community more effective in production. The prohibition of prison-labour is certain not to do this, and must necessarily have the opposite effect. The reduction of the normal hours of work will do it or will fail to do it, according as the extra leisure increases the workers' efficiency more or less than in proportion to the reduction of hours. The exclusion of competing imports will do it or will fail to do it, according as it turns out that goods, which business men believe they could not obtain by direct manufacture as cheaply as by exchange with the foreigner, can or cannot in fact be obtained more cheaply by this process. This is the economists' solution of a problem,

the popular discussion of which has proved so unsatisfactory. Put into other terms, it may be expressed roughly thus. There is no fixed work-fund open to the work-people of any country. By damming up a source of supply of some commodity, we may increase the employment available for the workers in a particular occupation, but we cannot directly increase the employment available for workers as a whole. That result may, indeed, be brought about indirectly, but only on condition that our action has led to the development of a more fruitful source of production—only, in short, if it has *not* restricted the output of established workers but has, on the contrary, augmented it.

From the critical discussion of the preceding pages, it might, at this point, be thought that a positive conclusion has emerged—the conclusion, namely, that the quantity of unemployment in any country is likely to vary inversely with productive efficiency or, what comes to substantially the same thing, with the country's real income *per* head. Thus, rich countries should have a smaller proportion of unemployment than poor countries, and the proportion in any country should become less as its wealth becomes greater. Any one setting out to make this inference will, however, be brought up immediately against facts

which must give him pause. So far as the very inadequate statistical material at our disposal goes, there is no reason to suppose that the richer countries of the modern world do in fact suffer less from unemployment than the poorer countries; nor is there any reason to suppose, in the case of the United Kingdom, that the enormous increase of wealth, which has taken place during the last half century, has been accompanied by any appreciable diminution in the average percentage of unemployment. These facts at first sight seem surprising. But they are not really so. Increase in real income does not imply a diminution in unemployment unconditionally. It implies an increase in the demand for labour, and, therefore, a diminution of unemployment, *provided that the average wage-rate for which workpeople stipulate remains the same.* As a matter of fact, however, variations in real wealth, whether as between different countries over the same period, or as between different periods in respect of the same country, tend to be associated with corresponding variations in the wage for which workpeople stipulate. It is inevitable that this should be so; for the mere fact of greater or less national wealth cannot fail to react upon the ideas which people entertain as to what constitutes a reasonable wage; and

it is, in fact, seen so to react in the varying wage-levels of different countries and times. Hence, we are *not* entitled to conclude that unemployment is likely to be associated with national poverty. This chapter, therefore, remains wholly critical, and gives ground for no positive conclusions.

CHAPTER V

UNEMPLOYMENT IN A STATIONARY STATE

THOUGH, as just stated, the preceding chapter has realized no positive results, it has revealed a method. For it has made plain the theoretical possibility that wage-rates at any moment and in every part of the industrial field can be so adjusted to the demand for labour of various grades that no unemployment whatever can exist. In other words, it has shown that unemployment is *wholly* caused by maladjustment between wage-rates and demand. The road which our investigation must follow is thus indicated. It must assume the form of an inquiry into the influences by which various kinds of maladjustment may be and are brought about. If, for all grades of workpeople, the average

wage-rates over fairly long periods—not the wage-rates prevailing at particular moments—were determined by the free play of competitive forces, unemployment would only be possible in so far as the demand for the labour of the different grades is subject to fluctuations. Apart from fluctuations there could not exist any unemployment whatever. Since, however, average wage-rates, in the sense explained, are not in fact everywhere determined by freely acting competitive forces, the way is open for a further group of influences, by which unemployment may be produced. It is the purpose of the present chapter to investigate this group of influences. To that end it is convenient to eliminate the complications which, in real life, are introduced by the fact of fluctuations, and to employ the conception of a wholly stationary state, in which all forms of industrial activity proceed everywhere at a constant rate. No firm or industry expands and none decays; the yield of the various crops is the same from one year to another; fashions do not alter; the wheel of life, in short, spins round continuously at one unvarying speed.

The case first to be considered is as follows. It sometimes happens that, in respect of some grades of workpeople, the wage-rate over the main part of the industrial field is freely ad-

justed by competitive forces so as to absorb all the workpeople assembled there, but that, at one or more selected points, it has been somehow raised above the level proper to free competition. An abnormally high rate of the kind contemplated may be established from time to time, or even for long periods together, if, in any industry or place, the workpeople happen to possess a particularly strong Trade Union. No doubt, even when a Union has power to enforce an abnormally high rate, it will not always find it to its interest to exercise that power. For, in many cases, the goods which its workers help to make are in such close competition with other goods, either of the same or of rival kinds, that the addition to the employer's costs of production brought about by the enforcement of an abnormally high wage-rate would greatly check the number of orders he could command. In this way, it would lead to a more than proportionate fall in the demand for the workpeople's services, and would thus bring about a diminution, instead of an increase, in their aggregate earnings. In some cases, however, a group of workpeople—coal-miners, for example, or doctors—render a service for which no adequate substitute can be found, and for which people would rather pay very high prices than cut down their purchases

appreciably. In these cases the establishment of an abnormally high wage-rate carries with it an addition to the aggregate real earnings of the workpeople affected, and, therefore, it is at all events to their immediate interest, and possibly even to their ultimate interest, to secure it if they can. Nor is Union action the only process through which the establishment of abnormally high wage-rates can be brought about. Such rates may also be enforced by the pressure of public opinion acting through consumers' associations and the fair wages resolutions of municipalities, and by the pressure of law acting through Wages Boards or Compulsory Arbitration.

To exhibit the effect upon unemployment of the establishment of an abnormally high wage-rate in any occupation, let us suppose—a supposition which, apart from systems of Poor Law relief specially favourable to particular places, is generally valid—that the competitive wage at the point affected would be equal to that ruling for similar work elsewhere, and that the actual wage has been raised artificially to 10 per cent. above this level. Then, as a first approximation, it would appear that new men will be drawn into the occupation affected until the *expectation of earnings* in it (this expectation being interpreted to mean the wage-rate multiplied

by the chance of employment) is reduced to the level of the earnings that prevail outside; and this evidently implies the creation of 10 per cent. unemployment. Furthermore, if we look at the facts a little more closely, we perceive that this first approximation somewhat under-estimates the quantity of unemployment to which a given element of artificiality in the wage-rate is likely to lead. For, in estimating the relative advantages of different occupations, workpeople are apt to pay more attention to the money wage, which is obvious and readily known, than to the probability of unemployment, which is a much more obscure matter. This means that a 10 per cent. rise in the wage-rate above the general level is likely to cause so many men to attach themselves to the industry that their average earnings are actually lower than those obtainable for similar work elsewhere. In other words, *more than* 10 *per cent.* of the men assembled there will, on the average, be unemployed. There is, indeed, no reason to suppose that, of these men, any individual will be unemployed permanently; but the aggregate volume of unemployment will be permanent, and it will be made up of separate items of unemployment, experienced now by some individuals and now by others.

What has just been said suggests that when,

at any point in the industrial field, an artificial element is present in the wage-rate, a certain amount of unemployment *must* result, and that the only possible "remedy" is the abolition or reduction of the artificial element. This conclusion, however, is not warranted. For, throughout the argument developed above, it has been tacitly assumed that, in the occupation affected, workpeople are engaged in such a way that an outsider, who contemplates attaching himself to the occupation, may reckon on a prospect of employment approximately as good as that of the men who are attached to it already. When this assumption is valid, the expectation of earnings in that occupation is rightly interpreted to mean the wage-rate multiplied by the chance of employment, and it is, in point of fact, the expectation of earnings in this sense, by which the number of men attaching themselves to the occupation or industry is roughly determined. Things work out quite differently, however, if the work available in the industry is concentrated rigorously upon a defined group of persons who constitute, in effect if not in name, a permanent staff. Suppose, for example, that employers in the industry engage their employees on some such plan as that pursued by the Home and Indian Civil Services, choosing men once

and for all and appointing them for a prolonged period. In that case the fact that the wage-rate is artificially high will not have the effect of assembling as camp-followers of the industry any persons other than those for whom full employment can be found. No doubt, as before, the mathematical expectation of earnings will be the wage-rate multiplied by the chance of employment. But this expectation will no longer measure the *attractive force* of the industry. However high the wages of those inside may be, it is useless for any group of persons to assemble outside as attachés, if it is quite certain that no share of the high wages will ever come to them. We may conclude, therefore, that the establishment of an artificially high wage-rate in any part of the industrial field involves unemployment only when the method of engagement prevailing there is of what may be called the casual type, and that it does not involve unemployment when, so to speak, the concentrated type of engagement prevails. An obvious corollary to this proposition is that, when the method of engagement adopted is of an intermediate character, the mass of unemployment that results will be greater or smaller, according as that method approximates more closely to the casual or to the concentrated type. It follows that, if, in

respect of any grade of labour, the average wage-rate is determined by competitive conditions in the main part of the industrial field, but is artificially enhanced at particular points, a change at these points from a casual method of engagement to a concentrated method, by the adoption, for example, of the device of engaging hands on the basis of a preference list, constitutes, so far, a real remedy for unemployment. Such a list is equally effective in fostering concentration, whether the names on it are set out in alphabetical order or order of merit or any other order, provided only that workpeople, as they are wanted, are engaged in strict accordance with the position of their names on the list. Preference lists can accomplish a good deal even when they are operated separately by a great number of distinct centres of demand. Their effect is enormously enhanced when they are operated by a single centre focussing the demand of a whole industry or district. Thus, a Labour Exchange working with a preference list is able to promote concentration in a very high degree. It must not be forgotten, however, that concentration brought about in this way will only diminish the aggregate volume of unemployment, provided that there exists, outside those particular points where wages are maintained at

an artificially high rate, a field of employment for the grade of workpeople in question, in which the wage-rate is determined freely by competitive conditions.

In the modern world the establishment of an artificial wage confined to those members of a particular grade of workpeople who are assembled at a limited number of points is probably not of very great practical importance. No doubt, in certain special cases, a strong Union may maintain such a wage for a time in the occupation to which it relates. In a short while, however, it will generally become obvious to outsiders that, by accepting a little less than the Union rate, they can secure regular employment and high earnings; and this knowledge must constitute a strong temptation. "Nominally, no doubt, they may hold out for the stipulated rate, but what is to prevent their contracting to give exceptional intensity of labour in exchange for it? Or may they not, as was so often suggested before arbitrators in the North of England iron trade, waive their claim to little extra advantages by which real wages are commonly enhanced? There are, in fact, numberless subtle ways in which a rift in the Trade Union dyke may be effected"[1]—ways that have become both more numerous and more easy since the practical disappearance of

those old apprenticeship rules by which the entry to a trade was, in former times, restricted. And, if Trade Unions are thus unable effectively to establish an artificial rate in favour of workpeople assembled at particular points, public opinion or governmental authority is, in general, unwilling to do so. Where these forces come into play at all, they hardly restrict themselves to raising the wage paid to an arbitrarily chosen part of the workpeople belonging to a particular grade, but rather extend their action to the grade as a whole. We may fairly conclude, therefore, that the case, upon the discussion of which we have hitherto been engaged, is not, in practice, greatly significant.

The second case, to which we now turn, is of a quite different order of importance. In all ordinary industries the workpeople employed are not exactly alike, but vary considerably in industrial capacity. It is, of course, theoretically possible that the wages of different individuals should be accurately adjusted to their powers, so that the same rate per unit of efficiency is paid to each of them. As a matter of fact, however, various forms of friction exist in the economic world, which hinder the full action of normal economic forces, and thus maintain the wage-rates of inferior workmen somewhat nearer

to those of good workmen than their comparative efficiency warrants. Consequently, if, as we may suppose, the wages of good workmen in any given industry stand at the level indicated by free competition, the wages of inferior workmen are apt to stand somewhat above that level, and are thus artificially enhanced. Even under pure piece-wages this is the case, for, though a quick worker under this system is paid more than a slow worker in proportion to his extra product, he is not paid more for the indirect benefit which he confers on the employer by occupying his machinery for a shorter time on any given task. It is where the method of time-wages prevails, however, that the element of differentiation is most marked. "In respect, indeed, of workmen whose inferiority arises out of some definite visible cause, such as old age, adjustment of payment to efficiency, even under this method, appears to be reasonably practicable. Trade Unions, in which operatives are paid by time, often have special arrangements permitting men over sixty to accept less than the standard rate. Such arrangements, Mr. Beveridge states, occur, for instance, in the rules of several furnishing Trade Unions, and of others in the printing, leather and building trades. In one Union, indeed, members over fifty-six years of age may

not only be allowed, but may be compelled, by their branches to accept less than the standard rate (so as to clear the unemployed fund). There are, however, many relatively inefficient men in industry, whose inefficiency is not associated with a definite objective thing, such as old age or infirmity. With regard to such men adjustment is far more difficult to bring about. The nature of the difficulties involved may be illustrated from the much-discussed case of the 'slow workers' under the New Zealand Arbitration Law. In connection with its award of 'minimum' wages, it is usual for the Arbitration Court to provide for a tribunal to fix an 'under-rate' for slow workers. In the earlier years of the Act, permits to claim the under-rate could be obtained from the president or secretary of the Trade Union concerned. It was found, however, that, especially in the case of slow workers, as distinct from those who are more obviously afflicted by age, accident or infirmity, these officials hesitated to issue permits. The new arrangement is that the power of issue is entrusted to the chairmen of local Conciliation Boards, after hearing the representatives of the Unions. In Victoria the issue is in the hands of the Chief Inspector of Factories, subject to the condition that the persons working with

licences in any factory must not exceed one-fifth of the adult workers who are employed there at the full minimum rate. The unwillingness of the Unions to sanction permits is, of course, due to the fear that, through them, the standard of output required of the ordinary efficient workman entitled to a full wage may be raised, and the minimum thus insidiously lowered. This unwillingness tends, of course, to be checked when the Unions are under obligation to pay large out-of-work benefit to unemployed members. In all circumstances, however, it is likely to retain some force, and it is, furthermore, strengthened by the reluctance of border-line workpeople to ask for permits, and of employers to obtain a reputation for employing under-rate workers." [2] Hence, under time-wages, even when no excessive rigidity is maintained, but a serious effort after adjustment of wage to efficiency is made, it seems probable that a true adjustment will be much less nearly attained than under piece-wages. The practical difficulties, which impede the proper adjustment of payment to efficiency, introduce an element of artificiality into the wage-rate of second-grade workpeople; and this undoubtedly tends to make the average amount of unemployment larger than it would otherwise be. The development of machinery

calculated to improve adjustment, whether it take the form of the substitution of piece-wages for time-wages, or of a better organization of time-wage systems, may, therefore, rightly be regarded as a remedy, within limits, for unemployment.

There remains a third case, also of great importance. It happens sometimes that, in respect of some low-grade workpeople, the wage-rate is raised throughout all the industries of the country, whether by custom or by law or in some other way, above the level at which, in the prevailing conditions of demand, all the men or women in that grade are able to obtain employment. People have ideas of a rough kind as to the amount of income that is necessary to provide a decent subsistence, and public opinion resents the payment to any class of normal workers of a wage that fails to yield them, when fully employed, an income at least as large as this. The humanitarian ideas that lie behind this sentiment may manifest themselves either through custom or through law. In England there is some reason to believe that the 10*s*. a week, which appears to be the customary payment for many kinds of women's work, has been established in great measure by the play of ideas of this kind. In the colonies of Victoria and South Australia

the humanitarian ideas have been clothed in legal form, and the payment in any registered factory of a weekly wage below, in the one case 2*s.* 6*d.*, in the other 4*s.*, has been forbidden. In New Zealand this more or less ornamental minimum is increased to something of real practical effect by a provision that nobody may be employed in a factory at less than a weekly wage of 5*s.*, *plus* an annual increase of not less than 3*s.* weekly till a wage of 20*s.* a week has been attained.[3] These laws do not, indeed, extend to workpeople engaged in agriculture, probably on account of the practical difficulty which would necessarily attend attempts to enforce them in that scattered industry. The spirit behind them is, however, clearly one that seeks, so far as it can, to establish throughout the country some sort of minimum wage for the lowest grade of workers, based upon current views concerning what constitutes a reasonable subsistence.

Now, as was argued towards the end of the preceding chapter, the wage upon which public opinion is likely to fix is not something absolute, but will be higher or lower, according as the country affected is rich or poor. The wage-rate below which it is held a discreditable thing to employ any servant will be larger, for example, in the United States or Great Britain

than in Russia or India. This circumstance has an important consequence arising out of the fact that, the richer a country is, the larger the demand in it for labour of every grade is likely to be. If, in any community, wealth—and, therefore the demand for labour—were to increase, while the accepted humanitarian minimum of wages remained the same, unemployment would necessarily diminish; and, if the humanitarian minimum rose while the community's wealth remained the same, unemployment would necessarily increase. Since, however, in actual fact, neither the amount of a country's wealth nor the humanitarian minimum deemed acceptable in it is likely to change in any lasting way unless the other changes also, these results are more of hypothetical, and less of practical, interest than they appear to be at first sight. In real life the two movements, if they occur at all, are likely to be associated together in such a way that the effect they tend to produce upon the average volume of unemployment more or less cancel one another. Hence, neither the level of the humanitarian minimum nor the level of material wealth can be regarded without reserve as a determinant upon which the average amount of unemployment depends. Such a determinant may be found, however—

and this is the point of my argument—in the number of workpeople of the lowest grade, so ill-endowed by nature and education as to be incapable of really efficient work, that exist in any country, *as compared with its general wealth.* If two countries are about equally rich and have about equal populations, but in one of them population is distributed among the different grades in such a way that a relatively large number are to be found in the lowest and least efficient grade, that country is likely to have the larger mass of unemployment. Consequently, anything that tends to diminish the proportion of the working-classes of any country that are capable of nothing but the poorest forms of unskilled labour is, generally speaking, a factor making for a diminution in the average volume of unemployment.

It follows from what has been said that the progress of education, physical, mental and moral, among the working-classes may truly be called a remedy, within limits, for unemployment. By developing general capacity, and sometimes also special technical capacity associated with some particular industry, education raises people, who would have been inefficient unskilled workers, into the ranks, if not of the skilled, at least of the efficient unskilled workers. In this

way it diminishes the number of that lowest grade of highly incompetent persons, for whose services, at the wage which considerations of humanity enforce, the demand falls short of the supply. Nor, it may be added incidentally, is this the whole effect. For the development of new skilled men, meaning, as it does, an addition to the productive power, and so to the real income of the nation, indirectly raises the demand for the services of the lowest grade of workers. From the present point of view, however, that result should not be stressed, since, as we have seen, an increase in real income is likely to be accompanied by a corresponding increase in the humanitarian minimum wage, and thus to have its beneficial effect upon unemployment cancelled. The reduction in the number of the lowest grade of workers, to which education leads, is, however, an influence not thus cancelled, and, consequently, a true element making for a reduction in the average volume of unemployment.

Now, of course, it is not practicable here to say anything in detail concerning the organization of education in the elementary schools of the country. A scarcely less important influence, however, in determining whether a boy is to become a low-grade unskilled workman or to attain to something

better, is exercised by the general character of the life he leads in the first few years after he has passed school age. At that period of his career the choice is open between occupations which at the moment yield a fairly high wage but afford no training, or, maybe, even injure his quality, and occupations which yield little return at the moment but store up capacity for after years. The occupations yielding considerable immediate return are of two principal kinds. On the one side are various types of work which, though skilled, are of such a kind that they are only possible for boys as boys, and do not, therefore, afford preparation for any form of man's work, such, for example, as those operations in the boot and shoe trade in which the small fingers of children give them a special advantage. On the other side are various types of unskilled children's work at present in large demand. The Royal Commission on the Poor Laws reports that in the large cities of this country, and notably in London, there are "innumerable openings for errand boys, milk boys, office and shop boys, van, lorry and tramcar boys, street-sellers, etc." [4] Neither of these two types of work can claim to be, in any substantial sense, educative. Of the specialized type, Mr. Jackson, in his Report to the Poor Law

Commission, writes: "The injury done to these boys is not that they are compelled as men to devote themselves to unskilled labour, but that, from the more or less specialized nature of the work which has employed their boyhood, they are unfitted to become good low-skilled labourers." The various types of unskilled labour open to boys are probably even worse from an educational point of view. There is reason to suppose that many of them not merely fail to train, but positively untrain, the boys subjected to them. The essential ground of this is well put by Mr. Jackson: "Mere skill of hand or eye is not everything. It is character and sense of responsibility which requires to be fostered, and not only morals, but grit, stamina, mental energy, steadiness, toughness of fibre, endurance, must be trained and developed." These general qualities, however, can ill withstand the conditions, if these are unalleviated, of many forms of unskilled boy-labour. Mr. Jackson reports the view that "the occupation of van-boys is very calculated to destroy industry," and adds that "opinion is practically unanimous that street-selling is most demoralizing to children. It is not so much a question of a skilled trade not being taught as of work which is deteriorating absorbing the years of the boy's life

when he most needs educational experience in the widest sense." [5] No doubt, attempts to prove the deteriorating consequences of any type of employment by comparing the boys engaged in it, in respect of character or after life, with boys in general, are rendered unsatisfactory by the fact that bad occupations are generally followed by boys who are initially of a low grade. This important point is made by Mr. Sidney Buxton in regard to telegraph boys. He rightly argues that it is not fair to condemn the telegraph messenger service by comparing the after-life of telegraph boys with that of boys entering skilled trades, because most of those who become telegraph boys would not, in any case, have entered such trades. He obtained comparative information concerning the after-life of telegraph boys and of their *brothers*, and found that, in some towns the telegraph boy, and in others the brother seemed to succeed better.[6] The justice of this critical point of view in its application to street-trading is recognized by the Committee on the Employment of Children Act 1903: "It would be going too far to place on their occupation the whole of the responsibility for the shiftless or criminal lives into which this class of street-trader often drifts; drawn from the poorest class, with home influences unfavourable, and

living mostly in the streets, the boy is handicapped at the start, and has few chances of becoming anything else."[7] Though, however, statistical argument on this matter must be looked at cautiously, yet, in respect of many of the unskilled occupations followed by boys, general experience seems clearly to establish the existence, not merely of a non-educative, but actually of a deteriorating influence. These various wage-paying and non-educative openings are powerful rivals to industrial apprenticeship, where that is still practicable, and to unremunerative work at evening classes, technical institutes and so forth. Partly from ignorance and partly from poverty, many parents are led to choose for their children, or to permit their children to choose for themselves, the course which is immediately more attractive, instead of that which is ultimately more advantageous. Here, then, is an opportunity for pressure and encouragement at the hands of those of greater foresight and greater wealth who stand in a position of authority. Philanthropic employers, like Messrs. Cadbury Bros., Ltd. —and, as, since the recent reforms, we are entitled to add, the British Post Office[8]— have already recognized their obligation in this matter. In the Bournville works elaborate provision is made for the physical

and mental training of the children employed, and it is a condition of employment that all employees under age shall avail themselves of this provision. It is open to the State to second these efforts by furnishing educational facilities for young persons at the charge, in part, of national funds, and by forbidding hours of labour so long, and forms of occupation so injurious, as practically to prevent those in whose interest the facilities are established from deriving benefit from them. There is evidence that opinion is coming to favour a policy of this kind. Principal Sadler holds that "employers, including Government departments, manufacturers, commercial firms, retail tradesmen, and employers of young domestic servants should be placed under statutory obligation to allow young persons of less than seventeen years of age, who are in their employment, to attend courses of physical, technical and general instruction for four hours a week, at any rate during the winter months, at times of day when the pupils are not too tired to profit by the teaching." And he would couple with this regulation an enforced "reduction in the hours of juvenile and adolescent labour where those are now excessive."[9] The late Canon Barnett desired the passing of an Act of Parliament, "which will compel

employers to get for every young person in their employ a weekly certificate of attendance at these evening classes in each week."[10] Finally, the Minority of the Poor Law Commissioners conclude: "We think that there would be many advantages in such an amendment of the Factory Acts and the Education Acts as would make it illegal for any employer to employ any boy at all in any occupation whatsoever below the age of fifteen; or any youth under eighteen for more than thirty hours per week; coupled with an obligation on the employer, as a condition of being permitted to make use of the immature in industry, to see that the youth between fifteen and eighteen had his name on the roll of some suitable public institute giving physical training and technical education; and an obligation on the boy to attend such an institute for not less than thirty hours per week."[11] In Germany this point has been taken up nearly two decades ago. "The Imperial Law on the Regulation of Industry of 1891 decreed that the masters in any branch of industry were bound to allow their workers under the age of eighteen to attend an officially recognized continuation school . . . for the time fixed as necessary by the authorities. The local Council might make such attendance obligatory for all male workers under the age of

eighteen."[12] That pressure of this kind would react *generally* to the advantage of the community is, I think, beyond dispute. In this volume, however, we are not concerned to discuss advantages of a general character. The point which here needs emphasis is that the adoption of such a policy might fairly be reckoned as an influence of some importance making for a diminution in the average volume of unemployment.

CHAPTER VI

THE PLASTICITY OF WAGE-RATES

HITHERTO attention has been confined to a class of maladjustment between wage-rates and the demand for labour that might arise even in a stationary state. That class of maladjustment we now leave on one side. In the actual world there is still scope for much additional maladjustment, consequent upon the obvious fact that the demand for labour, in every part of the industrial field, is exposed to fluctuations. For the purpose of the present chapter we take the existence of these fluctuations for granted, and suppose that their magnitude and general character are

given. There is no *necessity* that such fluctuations should involve unemployment: for the wage-rate that workpeople ask for at every point in the industrial field *might* so vary in response to variations of demand that there were never anywhere more workpeople than employers were willing to engage. A wage-rate varying in this way I shall call perfectly plastic. In real life, of course, everybody knows that no wage-rates are perfectly plastic in the above sense, and that, as a consequence, fluctuations do involve unemployment. It is equally well-known, however, that neither are wage-rates, as a rule, wholly lacking in plasticity. On the contrary, an increase or decrease in the general demand for labour is always likely to bring about *some* increase or decrease in the wage-rate which workmen will accept. The inference, therefore, immediately suggests itself that, given the magnitude of industrial fluctuations, the amount of unemployment which they involve will be greater or smaller, according as the plasticity of wage-rates is smaller or greater. This inference would be obviously correct, if all the fluctuations that occur in the industrial field were uniform throughout all parts of it, or if, granted that they are not all thus uniform, movement of labour between different parts was absolutely

precluded. In the circumstances that actually exist, where different parts of industry fluctuate relatively to one another, and where the mobility of labour (that is to say, roughly, the ease with which labour moves from one place or occupation to another under the influence of economic inducements) is imperfect, the issue is not so plain: for it is possible that a certain rigidity of wage-rates in the face of local fluctuations might so stimulate people to organize the mobility of labour that, in the long run, less unemployment would prevail than might rightly have been expected, had a greater plasticity of wage-rates been allowed. If, however, we assume, as now perhaps we reasonably may, that popular interest in the organization of mobility will, of itself, push forward that organization, by way of Labour Exchanges and so forth, with such vigour that no scope is left for further stimulus, this qualifying consideration may safely be left aside. We are then entitled to the general conclusion that unemployment is likely to be greater, the more rigidly wage-rates are maintained in the face of variations in the demand for labour.

An interesting practical illustration of this conclusion is afforded by some parts of the discussion, which has recently taken place, concerning the comparative amount of

unemployment normally prevalent in England and Germany respectively. There are no statistics in regard to these countries collected upon bases sufficiently similar to warrant any decided judgment as to which of them suffers the more severely. It has, however, proved possible to disentangle certain influences, some on one side and some on the other, by which the comparative severity of unemployment in the two countries is presumably affected. In the course of an analysis of these influences, a recent report of the British Board of Trade makes the following statement. "Trade Union standard rates of wages do not prevail in Germany to the same extent as in Great Britain. In consequence, workpeople have greater liberty in accepting work at wages lower than those at which they have previously been employed, especially in bad times. A more speedy return to employment of some kind, and a consequent reduction in the percentage of Trade Union members unemployed results from this."[1] . . . In this comparison, there is a simple and, subject to some statistical uncertainties, a convincing object lesson of the advantages of plasticity of wage-rates—and plasticity, be it noted, means, not merely liability to vary, but liability to vary in accordance with variations in the demand for labour—as an instru-

ment for reducing the average volume of unemployment.

In examining the causes, by which the degree of plasticity present in any particular wage-system is determined, we may conveniently consider first an important general circumstance, by which plasticity is everywhere impeded. This circumstance is, to put it broadly, that the purchasing power of the standard money employed in all modern States is variable. By this I do not, of course, mean merely that the prices of *particular articles* fluctuate from time to time. Such fluctuations in individual prices are a necessary result of fluctuations of industry. I mean that the prices of things in general fluctuate from time to time; that, not only do the values of wheat and iron vary relatively to one another, but that the value of the general mass of purchasable goods varies relatively to the sovereign. A sovereign, in short, at different times gives command over different quantities of things in general. Now, if this circumstance were fully understood by everybody, it would have no significance in reference to the present problem. As a matter of fact, however, it is not understood by the great majority of people. As the saying is, they think in terms of gold and silver, not in terms of what gold and silver will buy. The result—apart from

certain complicating consequences of economic friction, which need not be considered here—is easily seen. When the general purchasing power of money rises, in consequence, say, of a scarcity in the supply of gold, the demand for labour, expressed in terms of money, necessarily falls in all industries except those in which there has been a simultaneous, and not less than equivalent, expansion of the real demand expressed in terms of commodities. The point can be made clear, if we concentrate attention upon some industry in which the real demand for labour, expressed in terms of commodities, has, in fact, remained constant. In this case, whereas, before the change, employers were willing, let us suppose, to engage 10,000 men at a wage of 30*s.* per week, they are now willing to engage that number at a wage of 28*s.*, these 28*s.* giving command over exactly the same quantity of commodities and services as 30*s.* gave command over before. If the workpeople affected fully understood what had happened, they would know that a wage of 28*s.*, now that prices are reduced, is exactly equivalent to a wage of 30*s.* before they were reduced, and, consequently, unless some ground could be shown for claiming an increase in real wages, there would be no resistance to the proposed reduction in the nominal rate. But the workpeople

do not understand what has happened. Thinking—as most other people also think—in terms of money, they do not look through the nominal wage to the real wage which it symbolizes, but are convinced that a drop from 30*s.* to 28*s.* necessarily means a worsening in their economic situation. Consequently, they resist the reduction, and their resistance causes the wage-rate to fail from time to time properly to adjust itself to the demand for labour. In other words, variability in the purchasing power of the standard is, in view of the universal tendency to think in terms of money, a potent influence hampering the plasticity of wage-rates. In the eighth chapter it will appear that this variability also operates as an influence tending to promote fluctuations in the real demand for labour, and some account will be given, in that connection, of proposals that have been made with the object of rendering the standard stable. For the present, therefore, the matter need not be pursued further, and we may pass to another influence making against plasticity, which would still be present even in a world—if such were conceivable—possessed of an absolutely stable standard.

This influence is easily described. Both employers and employed are impelled to strive after greater rigidity than is directly

to their advantage, on account of the inharmonious character of their mutual relations. Thus, workpeoples' associations fight against attempts to lower the wage-rate in bad times, largely because they fear that, if it is once lowered, great difficulty will be found in raising it again; and employers fight against attempts to raise it as times improve, largely from fear of encountering a like difficulty in the way of subsequently lowering it. The extent to which this influence operates depends, of course, in the main upon the attitude of mind which employers and employed entertain towards each other. When a spirit of hostility and distrust prevails, appropriate wage-fluctuations can only appear rarely and through much tribulation. When, however, there is a spirit of greater tolerance, the strength of the influence we are here describing is, in great measure, broken.

This consideration leads on to a further aspect of our problem. When the relations between employers and employed are reasonably satisfactory, the essential spirit of their harmony may manifest itself in some mechanism of wage-adjustment, by means of which the influences hostile to plasticity can, in part, be overcome. Mechanism of this type is, as a general rule, part and parcel of a larger mechanism designed primarily to facili-

tate the adjustment of differences between employers and employed. This aspect of the matter will be discussed in the ninth chapter. Here it is sufficient to observe that organizations of employers and employed frequently set up—sometimes to meet a temporary emergency, but more frequently in a permanent form—Boards consisting of representatives drawn in equal numbers from both sides, and undertaking, among other work, either with or without the assistance of an arbitrator, the periodic revision of the general wage-rate current in the industry. By the operation of this machinery there is evolved a succession of industrial agreements, through whose agency attempts are made to adjust wage-rates to the changes that occur from time to time in the demand for labour. The fact that the machinery is available, and is likely to remain available in the future, lessens the hesitation of either side to make appropriate concessions when occasion for them arises, because it affords some guarantee that, when the occasion passes, resistance to the withdrawal of the concessions will not be pressed unduly. The machinery is, however, often cumbrous and difficult to work. In so far as it involves arbitration by a neutral chairman, it places a strain upon loyalty and self-discipline; for it may involve the acceptance

at another's hands of a bitterly resented award. Consequently, conditions will rarely be found, in which it can be safely invoked otherwise than at fairly long intervals. Each agreement, therefore, is likely to be made for a term of two or three, it may be even of five, years, and, only after that original period has lapsed, to be subject to short notice on either side. It follows that, when agreements are in the form of awards of definite single standard rates, wages under them do, indeed, become plastic for a while every two or three years, but, as against changes of demand for labour that occur during the original period of any agreement, they are absolutely rigid.

As a partial remedy for this state of affairs the device is sometimes adopted—in England it is specially common in various departments of metal manufacture—of substituting for agreements fixing single standard rates more complex agreements setting up sliding-scales. In some discussions of these arrangements it is, indeed, tacitly assumed that a scale, once introduced, is intended to regulate wages in the industry to which it is applied for the whole of future time. When this assumption is made, it is easy to show that broad changes in methods of manufacture and so forth are almost certain eventually to render the wage-rates established under the scale ridiculously

out of accord with current economic conditions. Thus, Mr. and Mrs. Webb urge against scales in general: "There seems no valid reason why the wage-earner should voluntarily put himself in a position in which any improvement of productive methods, any cheapening of the cost of carriage, any advance in commercial organization, any lessening of the risks of business, any lightening of the taxes or other burdens upon industry, and any fall in the rate of interest—all of which are calculated to lower price—should automatically cause a shrinking of his wage." [2] This type of criticism, valid enough against scale arrangements designed to be everlasting, has no force against such arrangements conceived, as they should be conceived, and are in practice framed, as a particular kind of industrial agreement, subject to periodic revision, and differing from simpler agreements only in that, during the two or three years for which they remain unchanged, the wage-rate, instead of being absolutely fixed, is allowed to vary about a fixed standard every two or three months.

The general principle of the sliding scale so conceived is as follows. For the period over which industrial agreements embodying it are to run, there is determined a certain standard wage, to be paid when the price of the product, which the industry concerned

produces, stands at a certain level. When the price diverges from this standard price, or, sometimes, when it diverges from it by more than a certain agreed amount, wages also vary from the standard wage: and a scale is drawn up indicating the amount of change in the wage-rate which shall follow different amounts of change in the price of the product. This is the simplest form of scale. In some cases the index, in conformity with which the wage-rate moves, is not the mere price of the product, but this price *minus* the price of the raw material employed in the manufacture of a unit of product. In some cases, again, provision is made for a minimum rate below which the wage shall not be allowed to fall whatever happens to the price, and, in yet other cases, provision is made for both a minimum and a maximum wage. Indeed, the detailed structure of sliding-scale arrangements varies greatly in different circumstances. The main idea underlying all of them is, however, the same. It is to contrive some index, whether it be price of product or something more complicated, variations of which are likely to correspond more or less with variations in the demand for labour in the industry concerned. When this has been done, it is possible, by associating variations in wages *immediately* with variations in that

index, to associate them *ultimately* with variations in the demand for labour. The extent of the wage-change that is balanced against a given change in the price of the product, or whatever the index selected may be, is, of course, different in different sliding-scale agreements. It is great or small, according, among other things, as the change in the demand for labour, which experience shows to be associated with a given change in the index, is great or small. The following description of the agreement, by which the wages of blast-furnacemen in the Cleveland district are at present regulated, is taken from the *Report on Collective Agreements* published by the Board of Trade in 1910, and may serve to indicate the general nature of this class of arrangement. The agreement in question was entered into in December 1897, and was to run till September 30, 1900, and thereafter subject to three months' notice from either side. It "provides for the ascertainment once in three months by accountants (one of whom is selected and remunerated by the ironmasters, and another by the blast-furnacemen) of the net average invoice price of No. 3 Cleveland pig iron, during the preceding three months from the books of seven specified firms. When this selling price is 34*s.* and not over 34*s.* 2·40*d.*

per ton, the wages payable are the standard rates. If the selling price falls below 34*s.* per ton, then for every change in price downwards of 2·40*d.* per ton, the wages of the blast-furnacemen suffer a reduction of 0·25 per cent. on standard wages. If, on the other hand, the selling price exceeds 34*s.* per ton, then, for every 2·40*d.* per ton by which the selling price exceeds 34*s.*, the wages of the workpeople are increased by 0·25 per cent. on the standard, except when the selling price is above 40*s.* and below 42*s* per ton. If the selling price is from 40*s.* up to 41*s.* 10·80*d.* per ton, the arrangement is that, for every advance of 1·20*d.* per ton in the selling price, the wages of the blast-furnacemen shall be advanced by 0·25 per cent. on the standard. After the price of 42*s.* per ton has been reached, the normal correspondence between wages and prices—0·25 per cent. increase in wages for 2·40*d.* increase in price—is resumed." [3]

Now, of course, it is not to be expected that any automatic arrangement can succeed in securing a continuous and perfect adjustment of the wage-rate to changing conditions of demand. The objection, which immediately suggests itself, that the price of the product ruling at the time, and not that ruling three months before, ought to be taken as the index

of demand can, indeed, be satisfactorily met; for a certain interval is required before changes in the price of a product react on the activity of the industry engaged in producing it. There are, however, other strong objections. For variations in the price of a finished commodity, or even variations in the difference between that price and the price of the most notable raw materials used in the process of manufacture, really afford a very imperfect index of variations in the demand for labour in the industry affected. It is true that, if the price of every sort of raw material employed, and of every kind of co-operating labour, could be taken into account in the construction of the index, many sources of imperfection would be removed. But life is short and the patience of accountants, no less than the range of information available, is limited. No doubt, in an industry such as coal-mining, where the demand for hewer's labour depends mainly on the price of coal at the pit mouth, and is little affected by the cost either of raw material or of complementary forms of labour required in conjunction with hewer's work, the necessary imperfections of a price index are relatively slight. Everywhere, however, such imperfections must exist, and, in complex industries, where the part played by any particular class of labour

in the building up of the product, in whose manufacture it assists, is small, they are likely to be of dominating importance. This point must be admitted, and indeed, should be strongly urged. On the other side, however, it should be urged with no less emphasis that, however imperfectly a sliding scale may enable wages to adjust themselves to variations in the demand for labour over the period of its currency, and however many and important the influences affecting demand of which its automatic formula fails to take account, it is, nevertheless, practically certain, if framed with any measure of intelligence, to enable wages to be adjusted to variations of demand more adequately than they would have been under an industrial agreement lasting for the same period and establishing a fixed standard rate.[4]

Though, however, this conclusion ought never to be lost sight of, the admitted imperfections of ordinary sliding-scales make it plain that some less mechanical arrangement, under which the two-monthly or quarterly variations of the wage-rate should not be based exclusively upon the variations of the price index, but also upon other relevant considerations, would be likely, if practicable, to possess important advantages. Accordingly, elastic arrangements, such as have at one time or other prevailed in certain important coal-fields,

would—whatever their other results—probably bring about increased plasticity of wage-rates in response to variations in the demand for labour. In the Scottish agreement of 1902, the relevant portion of which remained unchanged till 1907, it was provided "that the net average realized value of coal at the pit bank for the time being, *taken in conjunction with the state of the trade and the prospects thereof*, is to be considered in fixing miners' wages between the minimum and the maximum for the time being, and that, in current ordinary circumstances, a rise or fall of $6\frac{1}{4}$ per cent. in wages on 1888 basis for each $4\frac{1}{2}d.$ per ton of rise or fall in the value of coal is reasonable." [5] In like manner, in the agreement entered into in the Federated Districts in 1906, the main features of which are still current, it is provided that "alterations in the selling price of coal shall not be the sole factor for the decision of the Board, but one factor only, and either side shall be entitled to bring forward any reasons why, notwithstanding an alteration in the selling price, there should be no alteration made in the rate of wages." [6] Arrangements of this sort, when operated in a harmonious spirit by the two sides, carry with them greater plasticity of wage-rates than is to be found under sliding-scale agreements, and, therefore, *a fortiori*, than is to be found

under fixed wage agreements. The mere fact, however, that reasoned, instead of automatic, action is required under them suggests that their successful introduction is only likely to prove practicable in industries where especially cordial relations prevail between employers and employed.

There remains one further relevant consideration. It has appeared incidentally from the preceding analysis that, equally under a purely automatic scale and under what is, in effect, such a scale tempered by discussion, intervals of at least two or three months occur between successive changes in wage-rates. To some extent, this fact is due to the expense and mechanical difficulty that would be involved in ascertaining, with greater frequency, those facts about prices upon which the wage-changes are wholly or partly based. There is reason to suppose, however, that more far-reaching influences are also at work. If the wage-rate is continually changing, much inconvenience and uncertainty are imposed both upon employers, who are pledged to deliver goods at an agreed price, and upon workpeople who, so long as they continue in employment, like to maintain a constant standard of living. To get rid of these disadvantages, both employers and employed may well prefer a small measure of rigidity

rather than a system under which wages fluctuate in response to every varying wind of demand. Such a measure of rigidity, despite the fact that it is inevitably responsible for the existence of a small amount of unemployment, is likely, on the whole, to be socially advantageous, and there is, therefore, little prospect that it will ever be removed. Hence, though in various ways, as the relations between employers and employed grow more satisfactory and are more efficiently organized, the plasticity of wage-rates is likely to increase, it is practically certain that perfect plasticity, and therewith the complete abolition of unemployment, will never be attained.

CHAPTER VII

THE CAUSES OF FLUCTUATIONS

In the preceding chapter it was made clear that, when the measure of fluctuation present in the demand for labour anywhere is given, the average volume of unemployment involved will, other things equal, be greater or smaller according as wage-rates in the country under consideration are less or more plastic. We have now to suppose the degree

of plasticity in wage-rates to be given, and to investigate the effects of a greater or less measure of fluctuating character in the demand for labour.

A necessary preliminary to this inquiry is the choice of some criterion of that elusive concept, fluctuating character. The fact has to be faced that any one of a number of different criteria might be employed, and that no one of them has any title to be called, in any absolute sense, the best. One will be better for certain purposes and another for certain other purposes, and the choice between them must be determined by the use to which they are to be put. In the conduct of the present discussion I propose, partly for simplicity and partly for reasons that it is not necessary to explain, to adhere to the following definitions. The fluctuating character of the demand for labour in any single separate centre of demand is measured by the difference between the amount of labour demanded (at the same normal rate of wages) in the average of *all* times and the amount demanded in the average of good (or of bad) times taken by themselves. Thus, if, in any centre, the average demand is for 10,000 men, the average demand in times better than the average for 11,000 men, and the average demand in times worse

than the average for 9,000 men, fluctuating character in the centre is measured by the work of 1,000 men. This statement explains the sense in which fluctuating character is to be understood in respect of the demand of a single separate centre. When the term is given a more extended reference and is applied, not to the separate isolated demand of one centre, but to the demand of a whole country embracing a number of different centres, the fluctuating character of the whole is measured by adding together the measures that represent fluctuating character in the several centres of which the whole is made up. For example, if the country consisted of a thousand centres, the demand in each of which had a fluctuating character measured by the work of a thousand men, the fluctuating character of the demand of the whole country would be measured by a thousand times the work of a thousand men.[1]

Armed thus with definitions, we may proceed to investigate the effect produced on the average volume of unemployment by the existence of a greater or less measure of fluctuating character. As will appear in the tenth chapter, the *quantity* of the effect produced by any given measure of fluctuating character is liable to be greatly modified by circumstances connected with the mobility

of labour. There is no reason to suppose, however, that the *quality* of the effect is modified by these circumstances. It must be conceded, indeed, that, if the aggregate demand of all the centres collectively was absolutely constant, the presence of perfect mobility would reduce the volume of unemployment resulting from *any* quantity of fluctuating character to zero. This extreme case, however, is not of practical interest. Apart from that, if fluctuating character can be shown to be a cause of unemployment in any one condition of mobility, we may safely conclude that it will also be a cause of it in any other condition of mobility. It will suffice, therefore, to concentrate inquiry upon the simplest case, in which there is no mobility at all. Thus, we suppose that the separate centres of employment are absolutely isolated from one another as regards temporary movements of the demand for labour, so that no workpeople attached to one can move between it and others, as their relative fortunes change. Since, however, we are not here concerned with artificial enhancements of the wage-rate, we suppose at the same time that these centres *are* connected from a long period point of view. We suppose, that is to say, that the number of men *attached* to each of them is governed

by free competition, in such a way that the prospects offered by each to a young man choosing his occupation are substantially similar. If these assumptions are made, it is easily seen that the average wage-rate for work of a given degree of difficulty will be slightly higher—since something extra must be paid to compensate for greater uncertainty of employment—in the more fluctuating than in the less fluctuating centres, and that, in every centre, it will be such as to attach to that centre a number of workpeople roughly intermediate between the number for whom employment at that rate can be found in good times and in bad times respectively. This proposition, if not obvious already, can be made obvious by an illustration. Imagine a centre which, at any given rate of wages, has a demand, in good times for the services of 1,500 men, and in bad times for the services of 1,000 men. It is plainly not worth the employer's while to establish a wage-rate sufficient to attach as many as 1,500 men to his centre, since, over considerable periods, he will have no work for several hundreds of these men. But neither is it worth his while to establish a wage-rate so low as to attach only 1,000 men, since in that case, he would, over considerable periods, be unable to obtain workpeople of whose services he could

make use. Consequently, he will compromise at an intermediate wage-rate, calculated to attach to his centre some intermediate number, say 1,200 men. This number will be determined by a rough balancing of the loss resulting from a deficiency of men in good times and that resulting from an unnecessarily high wages-bill in bad times. Since periods of pressure can generally be met in part by resort to over-time, we may presume that it will stand at something less than half-way between the maximum and minimum figures of his demand. As a rough approximation, then, we may say that the number of men attached to any centre will be nearly equivalent to the number of men demanded there, at the average rate of wages, in the average of *all* times. So much being understood, it is easily seen that, when good times and normal times prevail at any centre, there will—on the assumption made throughout this chapter, that the average wage-rate is not artificially raised—be no unemployment there; but, in bad times, unemployment will exist, and will be equal to the excess of the number of men demanded there in the average of all times over the number demanded in the said bad times. Since, then, times better than the average and times worse than the average must, on the whole,

balance, every centre is likely to harbour, during about half the period of its existence, a volume of unemployment equal—apart from some slight correction due to the influence of over-time working—to the difference between the number of men demanded in it in the average of all times and the number demanded in it in the average of bad times. In these circumstances, the mathematically minded reader will perceive that, taking one period with another, the aggregate volume of unemployment in all the centres of demand collectively will be equal to about half the sum of the differences that exist in each of the several centres between the number of men demanded in them in the average of all times and the number demanded in them in the average of bad times. This figure is equivalent to about half the measure of the fluctuating character of the demand for labour in the country as a whole, as that measure was defined at the close of the preceding paragraph. It follows immediately—and this result will still be apparent, even though to some the preceding three or four sentences may seem obscure—that, other things being equal, the average volume of unemployment in any country is likely to be greater, the greater is the amount of fluctuating character in the demand for labour there.

The main purpose of the present chapter is to distinguish and discuss certain principal groups of causes by which the amount of fluctuating character is determined. Before that task is undertaken, however, it is convenient to call attention to an important attendant circumstance, upon which the effect on the fluctuating character of the demand for labour, initiated by any cause whatever, in great measure depends. This attendant circumstance is the practice of making for stock. It is plain enough that variations in the demand for labour in any place or occupation are often the result of variations in the employer's demand for the thing the labour helps to manufacture, and that these, in turn, are often the result of variations in the demand which he expects other people to make upon him for that thing. If, therefore, in periods when the purchases of the public are small, employers are able and willing to make for stock goods that they can sell in periods when those purchases are large, the variations in their demand for labour may be confined within much narrower limits than would otherwise be possible. Making for stock, in short, is a circumstance calculated to mitigate the effect upon fluctuating character of all the various causes that tend to promote it. It is, therefore, desirable

to disentangle the different influences by which the attitude of employers towards this practice is determined.

In respect of certain classes of goods, making for stock is practically impossible. This is the case with all direct services, such as those rendered by doctors, musicians, tram-drivers and cabmen; for these services are, from their nature, incapable of being stored. It is also the case with certain classes of commodities, which *could*, indeed, be stored, but only at a prohibitive cost; for example, gas, electricity, commodities which, though of little value, occupy immense space and commodities which are especially liable to breakage. It is the case again, with commodities in respect of which fashions are continually changing or new patterns are continually being introduced; for these, though it may be easy to preserve them physically, cannot, by any means, be preserved in respect of value. Finally, it is the case with commodities which cannot be made of standard form, but which, like ball-dresses, must be specially constructed to the order of individual purchasers. Contrasted with these various classes of goods stand that vast multitude of staple standardized articles, not perishable, not breakable, not costly to store in large quantities, not subject to the

vagaries of fashion. Such things can be made for stock in bad times without risk and often with considerable advantage to employers. If the processes by which they are made are of such a sort that temporary cessation involves, as is the case with blast-furnaces, heavy expense in restarting, it will be profitable to carry the practice of making for stock very far. Thus, categories of goods which are, and of goods which are not, adapted to this practice can be roughly distinguished. The distinction, however, it should be observed, is not a rigid and permanent one. Modern industrial developments are steadily shifting commodities, which in former times could not readily be made for stock, to the class of those which can be so made. Thus, the introduction of refrigerating and other preservative processes has rendered a number of articles of food, that in old days perished rapidly, capable of being stored for long periods. Fifty years ago, for example, the hops reaped in one season could not be kept till the next; but the advent of cold storage has increased the length of their life, and has enabled the high yields of fat years to be held against the deficiencies of lean years. Again, partly as a result of mechanical improvements, commodities which were formerly made to individual orders, and were,

therefore, incapable of being stored, are more and more being reduced to types and standards. The boot-making industry, for example, has passed, with the transition from hand to machine work, from the earlier stage, in which most boots were manufactured to order, to the later stage, in which nearly all are ready-made. These general considerations are important because it is evident that, whatever are the ultimate causes by which the fluctuating character of the demand for labour in any country is determined, the measure of it will be smaller, the larger is the proportion of the country's industry that is devoted to the production of those classes of commodities which offer scope for the practice of making for stock. With this preliminary, we may proceed to investigate certain principal groups of fundamental causes, by which the fluctuating character of the demand for labour is determined.

Among these attention may be directed first to two groups of what may fairly be called random or sporadic causes, because they burst out without rhythm and without connection, now in one part of the industrial field and now in another. One of these two groups contains causes that operate separately upon the several firms under whose auspices any particular class of work is carried out.

The demand for labour at each of these centres is acted upon by such things as variations in the skill with which the management of particular firms is conducted, and variations of a purely accidental character in the orders given by the particular clientèle attached to each of them. Causes of this kind act upon the various centres of employment quite independently. There is no presumption that the several variations of demand to which they lead will all be of the same character. Rather, it should be presumed that, if a wide enough area is taken into consideration, they will tend roughly to cancel one another, so that at any one time the abnormally low demands, to which they lead in some places, are likely to be offset by an approximately equivalent mass of abnormally high demands in other places. The other group of random causes consists of those fundamental changes, which bring about what are known as transformations of industry. They include changes in people's tastes, or in the knowledge of mechanical processes, or in the raw materials available for the manufacture of particular products. These causes affect the demand for labour in different industries regarded as wholes, and not, like the preceding group, the demand in different firms belonging to the same industry. Equally with the latter,

however, they act independently upon the various points which they affect; so that those of them, which make at any time for a reduction in the demand for labour in some industries, tend to be balanced by others, which make for a more or less equivalent expansion in other industries.

To this general account of the two principal groups of random causes, it may, perhaps, be well, before we pass on, to add a word of caution. The second of the two groups—those causes, namely, which carry with them transformations of industry, are popularly regarded as *the* causes *par excellence* of unemployment. And, indeed, it is true that they are responsible for certain cases peculiarly calculated to impress the imagination. When the hard-won faculty of a good workman is rendered useless by the invention of a new machine, that evil incident in the onward march of progress is patent and known to all. There can be little doubt, however, that the changes in demand for particular sorts of labour, which are brought about by transformations of industry, constitute a relatively insignificant part of the aggregate mass of changes in the demand for labour that occur—or at all events of those that are important from our present point of view. For these transformations rarely take

place in a violent and ruinous manner. When, by reason of mechanical discoveries or other causes, an old occupation decays before a new one, the decay is usually gradual. The demand for labour falls off slowly, and the contraction that takes place in any one year is small. Consequently, if the importance of the changes in demand due to transformations is to be compared with that of changes brought about in other ways, only a very small part of the aggregate change involved in a transformation should be counted in respect of any one year. Nor is this all. A gradual change of given magnitude, though equal quantitatively to a rapid change of the same magnitude, is not equal from the standpoint of our present inquiry, because it is capable of being met, not merely by unemployment, but also by a change in the direction of the influx into industry of a new generation of workpeople. The importance of this point is made clear by certain statistical investigations carried out by Professor A. L. Bowley. Reviewing in 1904 the occupation figures printed in the three preceding censuses, he wrote: "The main changes may have been accomplished, so far as the broad figures show, without any necessity on the part of any man to change his occupation, but simply by changes in the supply of new-comers. If a proportion of

lads bred in the country had gone to the railways and coal-mines, and taken situations as bus-drivers, grooms, or gardeners, and if the lads in Yorkshire and Lancashire, whose fathers were in the woollen and cotton mills, had gone into the cycle or machine trades or ship-building, or become clerks in the cities, the numbers would have grouped themselves much as the census shows. It seems very probable that such changes have taken place. The only case numerically important where there is an actual diminution of numbers is agriculture, and this would be sufficiently accounted for by the non-filling of the places of the old men as they dropped out of the ranks." [2] This passage is not cited with the object of suggesting that the sporadic changes in demand for labour involved in transformations of industry are of no importance. They do possess importance. But that importance is relatively small, as compared with the importance of certain rhythmical changes in the demand for labour associated with two other groups of causes, to which we now turn.

The essential character of these causes is, not so much that they display a certain periodicity in their appearance, as that they do not, like the causes just discussed, act upon the various centres of demand independently. The first of the two groups, into which they

may conveniently be divided, consists of those changes of climatic conditions that accompany the procession of the seasons. These changes are obviously in the nature of common causes acting, not separately upon different places and occupations, but synchronously upon all places and occupations in the same region of the earth. There is, therefore, nothing random about the distribution of their incidence. When the climate changes in a definite manner, there is everywhere a definite response. As regards the various places within a country at which any given occupation is carried on, it is obvious that a change calculated to contract (or to expand) demand at any one centre is likely also to contract (or to expand) it at all the other centres. As regards the various occupations, it is equally obvious that each several kind of climatic change is likely at the same time to contract the demand of some definite groups of occupations and to expand the demand of other definite groups. Thus, the advent of winter is a cause making, in all parts of the country, for an expansion in the demand for labour in industries that help to supply the community with artificial heat and light; while, at the same time, it is a cause making for a contraction in the demand of those whose operations are conducted

in the open air, and are, like the work of building, liable to hindrance from frost and wet weather. The advent of summer clearly exercises a precisely opposite influence upon these two groups of industries. Furthermore, the changes of the seasons touch indirectly yet other industries through their influence on the recreations of the public. In this way the dressmaking industry, for example, and the industry of hotel and restaurant service are affected. On the whole, it appears to be the fact, as might indeed be expected from general considerations, that the cold weather of winter is predominantly a cause of contraction in the demand for labour, the area over which it cuts down demand being wider than that over which it augments demand, while the warm weather of summer is predominantly a cause of expansion.

The second of the two groups of rhythmical causes, to which reference was made above, may be described compendiously as cyclical movements of the aggregate wage fund. These causes, like seasonal changes, have the character of common causes, and act synchronously in a definite manner over a wide field. They differ from seasonal changes, however, in three respects. First, their period, as traced in their effects, is much longer and somewhat less regular, being

completed, not in the fixed space of a year, but in a space that seems to vary between seven years and eleven. Secondly, their reach is much wider than that of seasonal changes : there are fewer industries that lie substantially outside the range of their influence. Thirdly, while seasonal changes so operate as to expand the demand for labour in some industries and, at the same time, to contract the demand in others, these causes seem always to act in the same sense upon all the industries that they influence at all. They are, in short, causes of *general* expansion and *general* contraction. This account, however, does not by any means exhaust their nature. They possess a further still more important distinguishing characteristic. Though, as has just been explained, they act upon all industries in the same direction, they are far from acting upon them all to the same extent. On the contrary, they bring about variations in the demand for labour in industries engaged in the manufacture of what may be called instrumental goods—namely, machines and other instruments required to assist further manufacturing processes—immensely greater than those which they bring about in other industries. The reason for this is two-fold. In the first place, cyclical movements of the aggregate wage-fund, implying as they do

variations in investment, naturally react, in the main, upon those commodities through which investment becomes materialized; and these commodities consist largely in such obvious instrumental goods as factory buildings, ships, machinery, iron and steel in various stages of manufacture, railway rolling stock and so forth. In the second place, commodities of this type are, as a rule, less rapidly destroyed in use than the general run of goods utilized in direct consumption—consumption goods, in short—such as food, clothing and various forms of personal service. Consequently, the stock of them existing at any time is, generally speaking, much larger relatively to the annual output. This circumstance has an important consequence. When the demand for wheat increases or decreases, as between two periods, by, say, 10 per cent., the demand for the production of *new* wheat increases or decreases in a somewhat similar proportion. When, however, the demand for ships or machinery or rolling stock increases or decreases, as between two periods, by that percentage, demand for the production of *new* ships, machinery or rolling stock necessarily increases or decreases by much more than 10 per cent. This larger variation results partly from the mere existence of the stock, and partly from the fact

that a period of boom adds to the stock, and so confronts the ensuing period of depression with an enlarged initial supply, which, of itself, necessarily causes the demand for new production to contract. But, plainly, it is with the demand for *new* production that the demand for labour is associated. The tendency of cyclical movements of the general wage-fund to react with exceptional force upon the demand for labour in industries engaged in the production of instrumental goods is thus demonstrated. The moral, of course, is that fluctuating character in the demand for labour is likely to be especially marked in countries, a large proportion of whose resources is employed in the manufacture of this class of goods. A nation, which concentrates its forces upon the manufacture of the instruments of industry, courts, thereby, a relatively heavy burden of unemployment.

CHAPTER VIII

CYCLICAL MOVEMENTS

During the latter part of the preceding chapter we were engaged in discussing the influence upon the fluctuating character of the demand for labour of a group of causes,

which we agreed to name cyclical movements of the aggregate wage-fund. It has now to be observed that these cyclical movements are themselves presumably the result of causes, and that our explanation necessarily remains incomplete, until the nature of these causes has been revealed. There is thus presented for attack a new problem, which is at once difficult and important. That it is difficult is sufficiently proved by the fact that serious differences of opinion prevail among experts as to its right solution. That it is important is no less evident, since to discover the causes of these movements is a necessary preliminary to mitigating them, and to succeed in mitigating them is also to succeed in lessening the average volume of unemployment. The discussion of this problem is the purpose of the present chapter.

The first question that has to be asked is why these cyclical movements occur at all. The answer appears to be somewhat as follows: the quantity of resources that a community is prepared at any time to devote to the purchase (at a given wage) of labour, to be set to work on the production of future goods, is roughly equivalent to the quantity that it is prepared to devote to investment. This depends upon two things, the available real income of the community and the choice

that those who have control of it make between investment and other uses—uses of which, from the present point of view, the most important is the simple storage of commodities in warehouses and shops, where they await future consumption. Generally speaking, any expansion in a country's real income is likely to lead to an increase in the aggregate wage-fund; and so also is any tendency towards optimism in the conception which business men entertain of the prospects of investment. A contraction of real income, on the other hand, or a movement towards pessimism among business men is likely to involve a diminution in the aggregate wage-fund. Now, variations in real income come about naturally enough as the result of variations in the bounty of nature, and variations in business confidence come about as the result of variations in the mood of business men. At first sight it might seem that these two sets of variations are independent and are likely to start separate trains of causation. As a matter of fact, however, they are often associated together, the changes in mood being themselves caused by changes in the bounty of nature. Summarizing a careful study of the influence of crops on business in America, Professor Piatt Andrews observes: "One cannot review the past forty

years without observing that the beginnings of every movement towards business prosperity, and the turning-point towards every business decline (movements which frequently, it will be remarked, have antedated the actual outbreak of crises by several years) were closely connected with the outturn of the crops."[1] Furthermore, an association of this kind, which Professor Piatt Andrews, like Jevons before him, considers to be proved fact, is one that we are also led to expect by general reasoning. For, after all, it is a tolerably familiar experience that the judgments which people form are biassed by their feelings. When they are prosperous, they are apt to look on the sunnier side of doubt. Consequently, good harvests, so far as they directly and indirectly improve the fortunes of the business world, are likely to act as a spur to optimism. Deduction and induction thus, in a measure, corroborate one another, and we may reasonably conclude that, in a considerable number of cases, booms in business confidence have their origin in good harvests. If this is so, the aggregate wage-fund is subject *at the same time* to both the two causes of expansion that were distinguished above, namely, increased real income *and* increased willingness to employ income in investment instead of holding it in store. These two

causes come into play together in seasons when nature is specially bountiful. A good case can be made out for the view that such seasons recur at intervals varying between seven and eleven years, and are due to solar changes. If this be so, Jevons' suggestion that the ultimate reason for cyclical movements is to be found in sunspots may, perhaps, contain a larger element of truth than some recent critics have been willing to believe.

When the originating causes of cyclical movements of the aggregate wage-fund have been determined—or, if the sceptical prefer it, in spite of the fact that these causes have not been satisfactorily determined—there remains a further question of great practical importance. The fluctuating character of the demand for labour in the country and, therefore, the average volume of unemployment, must obviously be greater, the greater is the magnitude of these cyclical movements. We must, therefore, ask by what influences this magnitude is determined, or rather—since that question is too large for treatment here—by what influences, of a kind that it may be possible for social reformers to modify, it is in part determined. These influences may be distinguished into two principal groups, namely, the organization of the business

world and the organization of modern monetary systems. By the arrangements that prevail under these two heads the extent of the upward and downward swing of the aggregate wage-fund is affected in a very important degree. It is necessary, therefore, for the purpose of this volume, that some analysis of them should be attempted.

The most notable and obvious characteristic of the organization of a modern business community is the close interdependence that subsists between its various parts. This interdependence is, to some extent, purely psychological—optimism and pessimism have a strange power of diffusing themselves among people assembled, as business men often are, in close physical contiguity—but it is, in the main, mediated by a material bond in the form of credit. For practically the whole of modern business is conducted on borrowed resources. "The debtor-creditor relation subsists, not merely between business men and sleeping capitalists, but also between different business men. In fact, most firms are both borrowers and lenders. They borrow from one set of people by buying materials from them on credit, and they lend to another set by selling the fruits of their workmanship on credit. Thus, we have, as it were, a series in the form A, B, C, D, each member of which is debtor to the one

preceding and creditor to the one succeeding himself." [2] Manufacturers of raw material are borrowers from the Banks and lenders to manufacturers of finished products, manufacturers of finished products are borrowers from manufacturers of raw materials and lenders to wholesale dealers, wholesale dealers are borrowers from manufacturers of finished products and lenders to retailers, retailers are borrowers from wholesale dealers and lenders to customers who buy on credit. This close interdependence among the different parts of the business world has the result that hopefulness in one investor will not, in general, cancel hopelessness in another, but that the whole body will be united, sometimes in confidence, sometimes in fear. This, of itself, means that the movements which occur are likely to be large. That, however, is not all. There is the further important result that rash trading on the part of a comparatively small number of houses may threaten widespread disaster, and, may, therefore, quite suddenly drive the main part of the business world from the heights of optimism to abysses of suspicion and over-caution. There can be little doubt, therefore, that the range covered by the upward and downward swing of the aggregate wage-fund would be lessened, if the present system of credit trading between business

men could be supplanted in any measure by trading against cash, or if the average length of the credits granted could be reduced.

In this connection, however, another important matter calls for consideration. Given the relation of interdependence between different business houses, and given the degree of prudence or rashness with which certain of them conduct their affairs, the resultant movements from optimism to pessimism are not determined by these things alone. Their range is also affected to a very important extent by the policy and practice of the Banks. For it is in the power of these institutions either to assist rash speculators along the road to disaster, thus making their ultimate collapse and its consequences to others more serious, or to check them at a comparatively early stage. And it is also in their power, when disaster comes, to save from the general wreck certain houses, which are really sound, but whose resources are locked up in such a way that they must, unless they receive temporary assistance, go down before the storm. It was a recognition of these facts that led Bagehot to pen his famous advice to the Bank of England: "The end is to stay the panic; and the advances should, if possible, stay the panic. And for this purpose there are two rules. First, that these loans should only

be made at a very high rate of interest. . . . Secondly, that at this rate these advances should be made on all good banking securities, and as largely as the public ask for them."[3] The policy which Bagehot recommended in this well-known passage is now a recognized part of British banking practice, and its adoption has probably been responsible, indirectly, for an important limitation in the range of movements undergone by the aggregate wage-fund.

There remains for consideration the influence on the range of these movements that is exerted by the monetary systems current in the modern world. Everywhere, as things are at present, transactions are conducted in terms of a standard of purchasing power, whose value, in relation to commodities in general, is liable to vary with variations in the demand for it. When business men raise loans, they do so in the form of a claim over money, with a contract to pay interest, and eventually to repay the principal, by means of a defined quantity of money. In times of industrial activity, however, since investments are carried through with money borrowed from the Banks and expended on the purchase of materials and the hire of labour, general prices are apt to rise above their normal level, or, in other words, the real value of a pound is apt to become less than it

was. The rise in prices, however, has not, in general, been perfectly foreseen and adequately allowed for in the terms of loan contracts. Hence, as it were, by a trick of fate, in periods of boom business men are given an excess of prosperity at the expense of sleeping capitalists; because the real interest which they have to pay on their loans is automatically reduced. Nor is this their only advantage. If they wish, on these occasions, to raise still further loans, they are probably able to foresee a continuing rise of prices better than the general body of lenders, and so can reckon on obtaining new loans at a lower rate of interest than these lenders would be willing to take, if they understood the situation as well as their clients. In respect, therefore, of old and new loans alike, business men, in times of industrial activity, obtain a special gain at the expense of their creditors, and are, therefore, led to extend their investments, and hence the aggregate wage-fund, further than they would otherwise have done. It is easily seen, by following out a kindred line of argument, that, in times of industrial depression, business men suffer a special loss for the benefit (more or less) of their creditors, and are thereby led to contract their investments, and, hence, the aggregate wage-fund, further than they would otherwise

have done. It follows that the liability of general prices to vary, or, in other words, the instability of the standard of purchasing power, is a cause tending to expand the range of the movements that occur in the aggregate wage-fund. Consequently, the introduction of any arrangement capable of counteracting this cause would, *pro tanto*, lessen the fluctuating character of the demand for labour and, therewith, the average volume of unemployment.

With this object in view, a number of economists have, from time to time, advocated the supersession of the gold standard, as it prevails to-day in the principal industrial States, by a currency based on two or more metals, instead of upon one. It can be shown that such a currency, if adopted by international agreement among the leading countries of the world, would probably render general prices somewhat less variable in the face of industrial fluctuations than they are at present. It is generally recognized, however, that the improvement to be hoped for from a change of this kind cannot in any case be other than small. Partly for this reason, and partly on account of the practical difficulties and inevitable misunderstandings to which bimetallic systems and analogous arrangements are exposed, the movement on their behalf, which had considerable import-

ance twenty years ago, has now died down. These methods of attacking the problem of variable general prices need not, therefore, be examined here, and attention may be confined to two other methods, both of which have recently roused popular interest.

The first of these methods, originally suggested by Jevons, consists in the establishment of a "tabular standard of value," in terms of which business men should be permitted and encouraged to make contracts involving payments of money in the future. Under this plan the actual currency would remain exactly as it is at present. But a Government Department would publish, month by month, an index-number showing how much, in terms of things in general—meat, cotton, wheat, iron and so forth—a sovereign was worth at one time as compared with other times. Suppose, for example, that in 1900 the value of a sovereign were represented by 100, then, if general prices in 1910 had risen 10 per cent., its value would, in that year, be represented (approximately) by 90. As things are at present, a loan of £1,000 at 4 per cent. made in 1900 involves the annual payment of 40 sovereigns so long as the loan lasts. In 1910, therefore, the creditor receives 40 sovereigns. These 40 sovereigns, however, on account of the

rise of prices, only purchase nine-tenths as many actual consumable goods as they purchased in 1900. Hence, though interest in terms of money is, as before, 4 per cent., interest in terms of things—the real interest and the only interest that matters—has fallen to nine-tenths of 4 per cent. If the loan had been contracted in terms of the tabular standard, however, the consideration would have been the payment in each year, not of 40 sovereigns, but of a number of sovereigns sufficient to buy in each year what 40 sovereigns bought in 1900. Thus, in 1910 the interest paid in terms of money would be, not 40 sovereigns, but ten-ninths of 40 sovereigns. It is obvious that, under an arrangement of this kind, the liability of general prices to vary would not cause business men to gain at the expense of their creditors in times of boom and to lose, for the benefit of their creditors, in times of depression; and that, therefore, that cause of expansion in the range of movement of the aggregate wage-fund would be put out of action. It is no less obvious, however, that, granted the regular publication of an official index-number, resort to it as a basis of contracts, since this must involve definite active steps on the part of the business community, would not easily be brought about. Even

in the case of those business men whose future contracts were all in the same direction —all contracts to pay interest or all contracts to receive it—inertia and tradition would urge them strongly to resent this new thing. And in the case of those who were at the same time borrowers and lenders there would be a further difficulty : for to adopt the tabular standard in respect of contracts to make payments would involve a real risk, unless it were practicable to adopt it also in respect of contracts to receive them. Consequently, even if A and B were both anxious to contract together in terms of the tabular standard, they might be prevented from doing so by the fact that one of them was involved in an opposite kind of contract with C, and that C would have nothing to do with "new-fangled notions." For these reasons the method of the optional tabular standard cannot be said to hold the promise of rapid or wide success.

We are thus led forward to the second of the two methods referred to above. This method, which is much more radical in character than that just discussed, has been developed, and is, at the present time, being enthusiastically advocated, by Professor Irving Fisher of Yale University. Whereas the method of the optional tabular standard requires, for its success, the active co-operation of business

men, this method dispenses wholly with their co-operation and makes no call whatever on their understanding. The proposal, in broad outline, is as follows: as before, a Government Department should publish month by month an index number representing, this time, the variations in the purchasing power of an ounce of gold. The weight of gold in the standard coin—in England the sovereign—should be reduced, in such wise as to make it, in effect, a "token coin." That is to say, the Mint should no longer give back in coined form, the whole, but only a part, of the bullion brought to it. In these circumstances, a given weight of coined gold would always be more valuable than the same weight of uncoined gold. The quantity of coined gold given in exchange for a given weight of bullion would not, however, on Professor Fisher's plan, be a fixed quantity, but would be increased or diminished according as the index-number of general prices showed a tendency to rise or to fall. When general prices began to fall, the Mint would sell coined gold for bullion below the market rate; and, therefore, more of it would get into the bank-reserves (thus providing a basis for further credit) and into the circulation. The quantity of exchange instruments being thus increased, while the quantity of trans-

actions against which they were required remained the same, an influence would be set up making for a *rise* of prices. In this way the fall of prices, which was threatening to come about, would be checked. In like manner, when general prices began to rise, the Mint would buy coined gold for bullion above the market rate, the supply of currency would be contracted, and the rise of prices, which was threatening to come about, would be checked. In short, to employ Professor Fisher's terms, the Mint—or whatever Governmental Authority might be selected for the purpose—would buy and sell currency in terms of bullion, in such a way as to maintain "a par, not with a fixed weight of gold, but with such a weight of gold as should have a fixed purchasing power."[4] If this plan could be carried out, the liability of general prices to vary would be greatly reduced. For a single country to adopt it would, indeed, lead to difficulties in the business of persons engaged in foreign trade, since, apart from special arrangements, they might find themselves borrowers in terms of one standard and lenders in terms of another. This, however, is not a difficulty of very great importance; for, after all, persons living in gold-standard countries and trading with silver-standard countries are already in that position. And, if the plan could be

introduced by the principal commercial countries jointly, by means of an international agreement, even this difficulty would disappear. Such an arrangement would probably necessitate greater expense to the community, through the locking up of its resources in stores of coined and uncoined bullion, than is involved in current monetary systems. It is not possible rigidly to prove that its indirect advantages in limiting the range of movements of the aggregate wage-fund and, thereby, indirectly lessening the average volume of unemployment, would outweigh this extra expense. It seems probable, however, that some nett benefit would result, and it is certain that some reduction would be brought about in the average volume of unemployment.

CHAPTER IX

INDUSTRIAL DISPUTES

It will be remembered that our definition of unemployment was so drawn as to exclude from the ranks of the unemployed those persons who are out of work because they are involved in an industrial dispute with their employers. At first sight, therefore, it might

seem that the general problem of industrial peace lies wholly outside the scope of this volume. That, however, is not in reality the case. In the monthly returns of Trade Unionists in receipt of unemployment benefit, published in the *Labour Gazette*, workpeople who are locked out or are on strike are not, of course, included. But, nevertheless, those parts of the *Labour Gazette's* chart, which relate to periods dominated by important disputes, always show an abnormally high general percentage of unemployment. In March 1912, for example, during the great coal strike, the general percentage was no less than eleven, as against an average level for March during the ten years 1903–12, of $5\frac{1}{2}$ per cent. The reason for this is that a stoppage of work in an important industry checks, in a two-fold manner, the demand for labour in other industries. On the one hand, by impoverishing the persons actually involved in the dispute, it checks the demand for the goods that other industries make; on the other hand, if the industry in which the stoppage has occurred is one that furnishes a commodity or service largely utilized in the conduct of other industries, it checks the supply to them of what is, in effect, a raw material of their work. In short, industrial disputes in one part of the industrial field

involve contractions in the demand for labour in other parts. They do not, of course, all do this in equal measure. The larger the range they cover, and the more fundamental the commodities or services they affect, the more marked is their influence. Coal and transport service, for example, are obviously basal goods subsidiary to practically all industries, and a miners' or a railway servants' strike, will, therefore, produce a much larger indirect effect upon the demand for labour than a cotton strike of the same extent and duration. In some degree, however, all industrial disputes are causes of fluctuating character in the demand for labour, additional to the more general causes that were discussed in the last two chapters. Any arrangements that can be devised for obviating their occurrence are, therefore, *pro tanto*, palliatives of fluctuating character, and, consequently, factors tending to diminish the average volume of unemployment. Hence, the scope of this volume makes necessary some brief discussion of what may be called the machinery of industrial peace.

When employers and employed are ranged over against one another in organized associations, it is inevitable that differences, by which peace is threatened, must, from time to time, arise between them. These differences may be concerned either with matters in them-

selves trifling, such as the treatment accorded to some small group of workmen, or with larger issues touching the general rate of wages or hours of labour. Whether a difference is large or small, it is, in the last resort, a difference between the two organizations. The individual bargaining of the more primitive types of industry—types of which representatives still survive—is superseded by collective bargaining. When this bargaining fails, just because the bargainers are organizations and not individuals, the community is threatened with a stoppage of work on a considerable scale—a real industrial war such as was not practicable prior to the days of organization. By the machinery of industrial peace is meant machinery designed to make improbable the occurrence of this kind of organized conflict.

To attain agreement without warfare on terms reasonably satisfactory is obviously, when practicable, much to the advantage alike of the employers and of the employed in any industry. Consequently, it is not surprising to find that, in advanced industrial communities, the more highly organized industries have evolved, as it were from within, exceedingly efficient forms of peace-promoting machinery. The classical home of these wholly voluntary arrangements is the United

Kingdom. Elaborate systems have been established for the representation in conference of employers and employed by persons whose business it is to discuss and, wherever possible, to adjust, any matter of difference that arises. These systems fall into two main groups, in one of which the procedure is wholly by way of conciliation, no provision being made for the solution of an ultimate dead-lock, while in the other, when conciliation fails, resort is had to the arbitrament of a neutral chairman. In another work I have examined at length the various forms which these two systems may assume. For the present purpose, however, it will be sufficient to display their general character by the description of a typical example of each class.

An excellent instance of purely conciliatory machinery is furnished by the Brooklands agreement of the Lancashire Cotton Trade. Clause 6 of that Agreement provides : " That in future no local Employers' Association nor the Federated Association of Employers, on the one hand, nor any Trades Union or Federation of Trades Unions, on the other hand, shall countenance, encourage, or support any lock-out or strike which may arise from, or be caused by, any question, difference, or dispute, contention, grievance, or complaint, with respect to work, wages, or

any other matter, unless and until the same has been submitted in writing by the Secretary of the local Employers' Association to the Secretary of the local Trades Union, or by the Secretary of the local Trades Union to the Secretary of the local Employers' Association, as the case may be; nor unless and until such Secretaries, or a Committee consisting of three representatives of the local Trades Union, with their Secretary, and three of the Employers' Association with their Secretary, shall have failed, after full inquiry, to settle and arrange such question, difference, or dispute, contention, complaint, or grievance, within the space of seven days from the receipt of the communication in writing aforesaid, nor unless and until, failing the last-mentioned settlement or arrangement, if either of the Secretaries of the local Trades Union or local Employers' Association shall so deem it advisable, a Committee consisting of four representatives of the Federated Association of Employers, with their Secretary, and four representatives of the Amalgamated Association of the Operatives' Trades Unions, with their Secretary, shall have failed to settle or arrange, as aforesaid, within the further space of seven days from the time when such matter was referred to them, provided always that the Secretaries or the Committee hereinbefore

mentioned, as the case may be, shall have power to extend or enlarge the said periods of seven days whenever they may deem it expedient or desirable to do so."[1] Agreements of a like general character are in force between the Engineering Employers' Federation and the principal Engineering Trade Unions, between the Shipbuilding Employers' Federation and the Trade Unions of their workpeople, and elsewhere.

The system of conciliation backed, in the last resort, by the arbitrament of a neutral chairman is exemplified in the agreement arrived at in 1909 between the Coal Owners of Scotland and the Scottish Miners' Federation. The first clause provides: "The Conciliation Board shall be continued, with the provision that there shall be obligatory a neutral chairman (whose decision in cases of difference shall be final and binding), to be selected by such method as shall be mutually agreed upon by the parties, and failing agreement, by the Speaker of the House of Commons; and the Board and this agreement shall remain in force until August 1, 1912; and unless six months before that date, notice of termination is given by either party, it shall remain in force thereafter, subject to six months' notice of termination given by either party at any time."[2] Agreements of

a like general nature, providing in the last resort for the reference of differences to an umpire, are found in other parts of the coal industry of the United Kingdom, in the boot and shoe industry, and also, in virtue of agreements recently entered into, on the principal railway systems of the country.

Now each of these two types of arrangement is evidently capable, when worked in a friendly spirit, of doing much to promote industrial peace. Neither type, however, is adequate to prevent strikes and lock-outs in all cases. Purely conciliatory schemes may be broken into by war even during the period of their currency; and schemes in which provision is made for arbitration may fail to be renewed when this period comes to an end. Consequently, of recent years, alike on the Continent of Europe, in the United Kingdom and in the United States of America, attempts have been made by public authorities to supplement private efforts after industrial peace by the offer of official mediation in cases where the danger of a rupture seems imminent. The idea is, not to supplant negotiation between the parties directly concerned, but rather to supplement and assist it. In some cases the offer of mediation may only be made on the request of one or other of the parties. Thus, a Belgian law of 1887 authorizes the estab-

lishment locally of councils of industry and labour, with sections representing different industries, and provides: "Whenever circumstances appear to demand it, at the request of either party, the governor of the province, the mayor of the commune, or the president of the section for the industry in which the dispute occurs must convene that section, which is to endeavour, by conciliation, to arrange a settlement."[3] More frequently, however, mediation is authorized at the discretion of the public authority, whether it is asked for by a party to the dispute or not. This is the case under the French Law of 1892 and under the English Conciliation Act of 1896. The latter Act provides: "Where a difference exists, or is apprehended, between an employer or any class of employers and workmen, or between different classes of workmen, the Board of Trade may, if they think fit, exercise all or any of the following powers, namely: (1) inquire into the causes and circumstances of the difference; (2) take such steps as to the Board may seem expedient for the purpose of enabling the parties to the difference to meet together, by themselves or their representatives, under the presidency of a chairman mutually agreed upon or nominated by the Board of Trade or by some other person or body, with a view to the

amicable settlement of the difference; (3) on the application of employers or workmen interested, and after taking into consideration the existence and adequacy of means available for conciliation in the district or trade and the circumstances of the case, appoint a person or persons to act as conciliator or as a board of conciliators." In order that no indirect effect in checking the formation of voluntary mutual Boards may be produced, the Act provides further that the Board of Trade shall carefully encourage the formation of such Boards in industries with which it is brought into contact as mediator.

Experience gives reason to believe that mediation, skilfully and sympathetically conducted, can often bring about the adjustment of differences that would otherwise have led to a stoppage of work. For it affords an opportunity to one side or the other to make concessions without loss of dignity; and it brings into prominence the fact, apt to be lost sight of in the heat of controversy, that the general public, as well as the parties directly concerned, have an interest in peace. There is, however, in mediation of the kind so far discussed, an obvious imperfection. The "good offices" of the public authority which seeks to intervene may be refused by one or other of the parties, or they may be accepted

and yet prove unable to bridge the difference; and there is then nothing further to be done. In view of this defect in purely optional mediation, the Dominion of Canada passed a law in 1907, which was subsequently copied by the Legislature of the Transvaal, providing, in certain cases, for a more drastic form of State intervention. The law, which is entitled the *Industrial Disputes Investigation Act*, is not of general application, but refers exclusively to certain industries, in which there is reason to believe that a stoppage of work would prove exceptionally injurious to the community as a whole. The industries covered are mining, transportation, all forms of railway service, the supply of electricity or other motive power, the working of steamships, the telegraph and telephone services, gas supply and water supply. Practically speaking, the Act comes into play in regard to these industries whenever a stoppage of work is seriously threatened, and it cannot be successfully evaded by the joint refusal of both parties to invoke it. The principal provisions are the following. Thirty days' notice must be given of any proposed change in the terms of contract between employers and employed. If a proposed change is resisted by the other side, a strike or lock-out in reference to it is prohibited under penalties,

until the dispute has been investigated by a Board appointed by public authority, and until this Board has made a report, together with recommendations as to proper terms of settlement, for publication by the Minister of Labour. When the report has been published, there is no obligation upon either party to accept its recommendations, and a stoppage of work may legally take place. But, until the report is published, such a stoppage is prohibited by law and renders every individual taking part in it liable to a fine: in the case of employers engaging in a lock-out, of from 100 to 1,000 dollars per day; in the case of workpeople engaging in a strike, of from 10 to 50 dollars per day. This law, it will be noticed, has two distinct aspects. On the one hand, it enforces delay, inquiry and discussion, from which it is hoped that a settlement by agreement will emerge; on the other hand, when such a settlement is not attained, it endeavours, by the publication of the Board's recommendations, to secure the acceptance of those recommendations through the pressure of public opinion. Of these two aspects of the law, recent investigators seem to agree that the former has proved in practice the more important. Mr. V. S. Clark, the reporter for the United States *Bulletin of*

Labour, recently wrote : " The government in appointing Boards, and the most successful Boards in conducting proceedings, have interpreted the Act as a statute for conciliation by informal methods, looking towards a voluntary agreement between the parties as its object." [4] And Sir George Askwith, in his Report to the British Board of Trade, published in 1913, expressed the opinion that " the forwarding of the spirit and intent of conciliation is the more valuable portion of the Canadian Act." [5] The other aspect of the law, is, however, not without significance. It is true that, as regards trifling disputes, in which the general public takes small interest, little pressure from public opinion can be evoked, and that, in all disputes, when once the passion of conflict has been roused, even strong pressure may be ignored. But, when the issue is one which seriously affects the whole community by threatening to disorganize, say, the railway service or the coal supply, public opinion is a force which must at least be reckoned with. It is interesting to observe, for example, that in a number of cases, where one or other of the parties has at first refused to accept the recommendations of a Board and a strike or lock-out has taken place, the dispute has ultimately been settled substantially on the basis of the Board's proposals.

Under the Canadian Act, as has already been observed, if the parties remain intractable alike to efforts at conciliation and to the suasion of opinion, strikes and lock-outs can ultimately take place without any infringement of the law. It has been left to the Australasian colonies to introduce a type of legislation under which, not only does a publicly appointed Board recommend terms for the settlement of differences, but the terms so recommended are legally binding, and a strike or lock-out against them is a punishable offence. This type of legislation, when fully developed, closes that loop-hole for a stoppage of work, which the Canadian law leaves open. Generally speaking, some effort is made not unduly to discourage settlement by discussion and conciliation, but the principal stress is laid on preventing resort to a strike or lock-out in those difficult cases where less heroic expedients have failed. In New Zealand, indeed, contrary to a common opinion, a small loop-hole is still left. For the compulsory arbitration law of that colony applies only to Unions of workpeople registered under the law. In the corresponding laws of New South Wales and Western Australia, however, there is no such reservation, and the same remark holds true of the Commonwealth Law relating to differ-

ences extending over more than one State. In every case the prohibition against strikes and lock-out is sanctioned by a money fine. In New Zealand individual employers and Unions of workpeople who break the law are liable to a penalty of £500, and, in case a Union of workpeople fails to pay, its individual members are liable to a fine of £10, which may be collected by means of a writ of attachment of wages. Western Australia, like New Zealand, relies wholly on money penalties. But the New South Wales law provides also for the imprisonment of persons who fail to pay their fines, and the Commonwealth Law provides for imprisonment, without the option of a fine, in the case of a second offence. It is obvious, of course, that no legal prohibition and no provision of penalties can ensure that the prohibited action will *never* be performed. No surprise need, therefore, be caused by the circumstance that, in the Australasian colonies, in spite of their coercive laws, stoppages of work, on account of industrial disputes, have, in fact, occurred. This is only to be expected, just as it is only to be expected that thefts and murders will occasionally take place in defiance of laws penalizing those acts. The advocates of compulsory arbitration laws do not deny this. Their claim is, not that these laws can create "a country without

strikes", but that, by invoking a pressure more direct and potent than that of unorganized opinion, they can render stoppages of work less frequent than they would otherwise be.

This brief account of four principal types of machinery designed to promote industrial peace—voluntary boards, mediation, compulsory investigation and report, and compulsory arbitration—has necessarily been exceedingly cursory and incomplete. In endeavouring to estimate the comparative advantages of the different types, we may take it for granted that voluntary Boards and the proffer, on critical occasions, of the good offices of a public authority are welcomed as socially desirable by practically all students of these matters. There is, however, considerable difference of opinion as to whether or not the best interests of the community are served by the institution, in addition to these things, of legislation on the Canadian or on the Australasian model. A very important objection often urged against compulsory investigation and compulsory arbitration alike is that they necessarily tend, in greater or less degree, to check the up-building of voluntary systems of conciliation and arbitration by the joint efforts of employers and employed in the various industries. These systems, it is urged,

are valuable, not merely as agencies of peace, but also as agencies for promoting mutual sympathy and understanding between employers and workpeople. Peace enforced by external pressure is, doubtless, still peace and, so far, a social good. But peace so attained may be associated with feelings of bitterness and hostility, and is much inferior to that peace *and goodwill* which, had conflict not been forcibly suppressed, might before long have emerged from its ashes. This argument is a general argument against all forms of authoritative intervention imposed from without in differences between employers and employed. Obviously, however, if such intervention is associated with deliberate efforts to promote the development of conciliatory machinery, and if, furthermore, it is restricted to cases in which stoppages of a specially injurious character are threatened, the argument loses much of its force. Against the drastic form of intervention provided for in Australasian legislation there is, however, from the standpoint of the United Kingdom, and probably also of the United States of America, another and more cogent argument. Legislation, to which the opinion of large masses of the population likely to be affected is strongly opposed, is apt to prove at once difficult of enforcement and injurious to that general

respect for law, which it is to the interest of every community to maintain. In England and in the United States anything in the nature of compulsory arbitration is at present looked upon by employers and employed alike with very great distrust. To introduce it at a single stride in the face of this general sentiment would be both impracticable and unwise. The case is, however, different with compulsory investigation and enforced postponement of stoppages of work, as exemplified in the Canadian Act. The present writer's view upon this matter was published in 1903, four years before that Act was passed, and subsequent events have shown no cause for modifying it. "The next step," it was argued, "in a campaign on behalf of industrial peace should be the promulgation of some scheme for the coercive reference, at the discretion of a Minister, of the differences arising in certain specified industries to a Court, whose awards should depend on the sanction of informal opinion. A scheme of this kind has, in America, secured the powerful advocacy of the Anthracite Coal Strike Committee, and may be said, in England also, to be within the bounds of practical politics. Its enactment would be in conformity with the experimental traditions of British legislation. It would represent a policy, safe-

guarded, on the one hand, against the danger of grave disaster, and opening up, on the other, possibilities of future development and a gradual advance towards a better condition of things." [6] In this better condition of things a diminished average volume of unemployment would constitute one not unimportant element.

CHAPTER X

THE MOBILITY OF LABOUR

In the course of the seventh and eighth chapters it was shown that, while some of the causes of industrial fluctuations that are at work (those causes, namely, that are connected with variations in the seasons, the climate and the mood of business men), tend to promote everywhere fluctuations in the same direction, others are responsible for upward fluctuations in some industries, or parts of industries, accompanied by downward fluctuations in others. In these circumstances it is plain that, in so far as workpeople are free to move from points of contracted demand to points of expanded demand, an employer in good times is not bound wholly to satisfy his

demand for labour by drawing upon a body of workmen permanently attached to his factory, and always waiting for calls from it. He may reckon also on finding available hands temporarily thrown out of employment by a synchronous depression in some other part of the industrial field. If the conditions were such that the demand for labour in the aggregate were stationary, booms in some places and occupations exactly balancing depressions in others, and if the mobility of labour from any one point to any other point were absolutely perfect, he could reckon on always obtaining in this way whatever hands he might require. Consequently, that necessity for the maintenance of a system of wage-rates calculated to retain a reserve of labour in excess of the numbers needed in bad times, upon which stress was laid at the beginning of the seventh chapter, would no longer exist, and unemployment would, therefore, entirely disappear. Of course, in the actual world, it is very far from being the fact, either that the demand for labour in the aggregate is stationary or that the mobility of labour is perfect. The hypothetical case, the consequences of which have just been traced, has, therefore, merely an illustrative value. Nevertheless, contemplation of it enables us to see that the tendency

there manifested to the full is also manifested in part in the actual world. Every improvement in the mobility of labour between parts of the industrial field, in some of which the demand for labour is liable to rise at the same time that it falls in others, diminishes the reserves of labour assembled in each part, and, in this way, *pro tanto*, diminishes the volume of unemployment. It may, indeed, be objected that improved mobility, by increasing the number of men actually moving in search of work to a greater extent than it increases the speed of their movement, might conceivably increase the number of persons in transit between jobs. Reflection, however, shows that, *unless improved mobility reacts to diminish the plasticity of wage-rates*, this increase, if it occurs, is an increase in one part of unemployment at the expense, not of employment, but only of another part of unemployment; for, after all, the men in movement are a portion of, and not additional to, the reserves attached to the various divisions of the industrial field. It is true that the case would be different if important reactions on the plasticity of wage-rates occurred, because, in that event, many men, who otherwise would have accepted work where they were at reduced rates, might set off wandering in search of it, thus creat-

ing a real addition to the numbers of the unemployed, sufficient, in conceivable circumstances, to outweigh the accompanying contraction. This theoretical possibility, however, is one, the realization of which in practice appears too improbable to require serious consideration. The general proposition may, therefore, be taken as established that, other things being equal, the more perfect is the mobility of labour, as between points where the demands for labour are liable to move in opposite directions, the smaller the average volume of unemployment is likely to be. Furthermore, though, no doubt, divergent movements of demand are more probable between certain trades or parts of trades than between others, yet they are liable to occur on occasions between *any* two parts of the industrial field. Consequently, the above proposition may be extended so as to apply to mobility in general. Two further remarks should, however, be added. The first is that improvements in mobility check unemployment most markedly, when they are made between points at which the fluctuations of demand for labour tend definitely to compensate one another. An example may be found in the relation between gas-works, whose products are chiefly wanted in the dark winter months, and brick-works, which

are naturally most active in summer, when the long days facilitate building operations. The second remark is that such improvements are likely to have a larger effect when they occur between firms in different industries than when they occur between firms in the same industry, because, in the former case, a larger proportion of the variations in individual demands are likely to be in opposite directions. This last consideration suggests that a specially beneficial effect on unemployment will be exerted by the modern tendency—to be discussed on p. 165—towards specialization to particular jobs (utilized in many trades) in place of specialization to particular trades. These points are, however, of secondary moment. The following pages, therefore, will be devoted to a discussion of mobility in general rather than of any special forms of it. A start will be made by considering more closely than is usually done the precise meaning which the term mobility ought to bear.

This term, as is well known, is sometimes used to signify mere fluidity, or capacity to flow in any direction under the influence of a stimulus. That is not the meaning which must be given to it for the purpose of the present discussion. Mobility means, rather, tendency to flow in the direction which en-

lightened self-interest commends, or, to employ Mr. Beveridge's formula, not mere fluidity, but organized and intelligent fluidity.[1] We, therefore, part company with the popular view, which finds the influences determining mobility in the presence of absence of "impediments to mobility," which embraces among these impediments at once false judgments about economic self-interest and various costs of movement, and which declares that mobility is necessarily increased by the removal or mitigation of any of these impediments. For, evidently, on the definition of mobility just set out, if judgment as to where self-interest lies is wrong, mobility, so far from being increased, is actually diminished by any reduction of the physical costs of movement. The lessening of ignorance and error always improves mobility, but the lessening of the physical costs of movement only improves it, provided that ignorance and error are already, in the main, overcome. It is, thus, in many cases, an open question whether a *mere* cheapening of the costs of travel to workpeople, unaccompanied by any other change, involves improved mobility; but it is never an open question whether such cheapening, coupled with intelligent direction to specific vacancies, has that effect. That this important point is

now winning general recognition is suggested by the fact that, in England, travelling benefit, originally paid out by Trade Unions indiscriminately to all members in search of work, is now mainly used to enable selected members to reach places in which work has actually been found for them; by the fact that the British Labour Exchanges Act contains a clause permitting the Exchanges, subject to the approval of the Treasury, to authorize advances, by way of loan, towards the expenses of workpeople travelling to definite situations; and, finally, by the fact that, in Germany, the Exchanges provide cheap railway tickets, not to work-seekers in general, but to those only for whom they have found definite situations. Let us then consider, in the first place, what provision is made in modern civilized States to guide the movement of workpeople in right directions. This investigation can be conducted at the same time with regard to movement from one place to another within a given occupation and to movement from one occupation to another.

Other things being equal, it is clear that the hindrances to mobility imposed by ignorance are greatest when the workpeople in one part of the industrial field have no knowledge whatever of the conditions prevailing

in other parts. For if, in these circumstances, they were to set out to look for work elsewhere—a step which their ignorance will make them hesitate long to undertake—they would wander aimlessly round to the firms that have not, as well as to those that have, vacancies, engaging themselves in a weary "tramp from one firm to another, in the attempt to discover, by actual application to one after another, which of them wants another hand." [2] As a rule, however, at all events in the United Kingdom, ignorance is somewhat less complete than this. Some sort of general information is available as to the comparative state of the demand for labour in various places and occupations. Such information can be obtained through newspaper advertisements, the talk of friends and the reports of local conditions collected by Trade Unions. Mr. Dearle has an interesting account of the development of these methods in the London building trades: "That system of mutual assistance in getting jobs which a man and his mates render to one another is extended and carried out in a more systematic manner by means of the vacant books of the Trade Unions. Each man, as he becomes unemployed, writes his name in the vacant book at the local branch office or meeting-place; and then every other

member of the branch—and branches ordinarily number from 20 up to 400 or 500—is looking for a job for him, or, to be more exact, all members of the branch are on the look-out for vacancies to clear the vacant book. Obligations are imposed on all members to inform the branch secretary when men are wanted anywhere; and, whilst in some Unions—for instance, the Amalgamated Carpenters and Joiners—a small sum, generally 6*d.* per member, is given to any one who will take unemployed men off the books, a heavy fine is imposed on any one known to be giving preference to non-Union men. The usual thing is to inform the secretary where men are, or are likely to be, wanted, and the latter is bound to inform out-of-work members where best to look for jobs." [3] Of late years, in England, still further information of the kind, in a more widely accessible form, has been furnished officially through the *Labour Gazette*. The less developed Labour Exchanges also act as powerful informing agencies. They extend the inquiry work carried on by Trade Unions, and "enable the workman to ascertain, by calling at an office in his own neighbourhood, what inquiries have been made for his own kind of labour all over London." [4] When the Exchanges of different towns are interconnected,

the workman is brought into contact with a still wider range of information. Thus, in Germany: "In order to ensure the mobility of labour, it is considered to be of importance that the agencies for obtaining employment in the different parts of the German Empire should be linked up by a system of intercommunication. This system is provided by the Federations of Labour Registries. . . . In the Grand Duchy of Baden all are telephonically in communication, and want or superfluity of labour in one place is immediately known in all the others." [5] In Bavaria the system is extended by the publication of lists of vacancies to villages in which no Exchange exists.[6] In England the development from the isolated to the connected form has been consummated in the recent Labour Exchanges Act. It is evident that an organized system of this character may serve as a powerful instrument for removing the hindrances to mobility that arise out of the ignorance of workpeople temporarily out of employment.

It might seem at first sight that when, over a given field, a thoroughly organized system for conveying information as to the state of demand throughout the field has been set up, no further step in the direction of facilitating mobility by dissipating ignorance

remains to be taken. That, however, is an erroneous view. Information that at the present moment there are two vacancies open in the works of a particular firm is not equivalent to information that the vacancies will be open when the men, to whom this fact has been narrated, arrive there in search of work. The ignorance that obstructs mobility may, therefore, be still further reduced if, in place of centres of information as to the vacancies at the time available in different establishments or departments of establishments, there are instituted centres at which hands can be definitely engaged for these different establishments or departments. When that is done, workmen are informed, not merely that there are so many vacancies now in certain places, but also that these vacancies will still be available when they arrive in quest of them. This is the essential contribution to mobility made by the establishment of a common centre of engagement for all departments of the London and India docks, and, over a wider field, by the establishment of the modern highly organized form of Labour Exchange. It does not, indeed, greatly signify whether the men, whom officials at an Exchange select for particular firms, are engaged by them absolutely or are sent to the firms on approval; for, generally speaking,

men so sent will, in fact, be accepted. It does signify, however, and is, indeed, the root of the whole matter, that definite men shall be chosen out and sent to firms who have notified definite vacancies to be filled through the Exchange. It is not the creation of Labour Exchanges that is of value from the present point of view, but the use of them as a common agency of engagement by a number of firms, which would otherwise act as separate and independent centres of demand.

So much being understood, it is obvious that the resultant favourable influence upon mobility will be greater, the larger is the proportion of the vacancies occurring in any locality that are filled through the agency of the local Exchange. This proportion, under a voluntary arrangement, will be larger, the more attractive Exchanges are made to employers. Experience seems to show that, if they are to win an extensive clientèle, they should be public—not run as a private speculation by possibly fraudulent private persons [7]—that they should be managed jointly by representatives of employers and employed; that they should take no notice of strikes and lock-outs, but simply allow each side to post up a notice in the Exchange to the effect that a stoppage of work exists in such and such an establishment; that they

should be wholly separated from anything in the nature of charitable relief—association with such relief both keeps away the best men from fear of injuring their reputation as workers and makes employers unwilling to apply to the Exchanges—; that they should be given prestige by municipal or State authorization, and should be advertised further, so far as practicable, by being made the exclusive agency for the engagement of workpeople employed by public authorities. The question whether fees should be charged to the workpeople making use of them is debatable. The French law of 1904 forbids even private Exchanges to make such charges. But the Transvaal Indigency Commission points out that "the charging of fees is by far the most effective method of keeping away those who are not really in search of work"[8]; and, if such persons are driven off, the Exchanges will undoubtedly prove more attractive to employers. It is, further, open to the State, if it chooses, to increase the proportion of vacancies that are filled through Exchanges by some form of legal suasion. A step in this direction would be taken, if the registration at an Exchange of all workpeople out of employment were made obligatory; for, if that were done, the inducement to employers to resort

to these centres of engagement would be increased. Such a step is suggested by the Poor Law Commissioners in these terms: "We think that, if, as will be proposed subsequently, the State contributes to the unemployed benefit paid to each Trade Unionist, the State might well make it a condition of such payment that the Trade Unionist, when out of work, should register his name and report himself to the local Labour Exchange, in addition (if it is so desired) to entering his name in the vacant book of his Union. If the State supports and encourages the Trade Unions, it seems only reasonable that the Trade Unions should assist the State by supporting the national and nationally needed Labour Exchanges." [9] A more drastic arrangement would be to provide by law that employers and workmen should never enter into a contract of work without reference to an Exchange. This plan, which already rules in England in respect of sailors in the mercantile marine, is recommended for general adoption by Mr. Beveridge. Fearing that the effectiveness of Labour Exchanges might be weakened by lack of support from employers, he boldly claims complete compulsion. "If the thing cannot be done voluntarily, it will have to be done, and will be done, compulsorily. A new

clause in the Factory Code, *e.g.* that no man should be engaged for less than a week or a month unless he were taken from a recognized Labour Exchange, would be a legitimate and unobjectionable extension of the accepted principle that the State may and must proscribe conditions of employment which are disastrous to the souls and bodies of its citizens." [10] The British National Insurance Act, without going so far as this, offers the inducement of what is, in effect, a slightly reduced charge in respect of the insurance of their workmen both against sickness and, when this form of insurance is provided, against unemployment, to those employers who engage their hands through Labour Exchanges.[11] All these devices, in so far as they foster a more extended use of Labour Exchanges, tend, other things being equal, to break down ignorance of the conditions of the demand for labour, and, hence, to foster mobility. It must be observed, however, that the extent to which they do this, and, therefore, the benefit to be expected from their introduction, is likely to be smaller in a country already provided with a widely-extended system of Trade Unions than in one where Unionism is comparatively little developed. This point is brought out by the fact that, while in Germany the Labour

Exchanges are as effective in finding places for skilled men as for unskilled men, in the United Kingdom their usefulness has been confined in the main, at all events as regards the finding of work in the immediate neighbourhood, to the latter class, among whom no strong Union organization exists.[12]

When knowledge has been so far developed that whatever desire for movement there is is desire according to knowledge, mobility is greater or less, according as those who desire to move, whether from one place to another or from one trade to another, are subjected to smaller or larger obstacles. These obstacles may assume any number of different forms. For example, until the end of the eighteenth century "place mobility" was seriously obstructed by the law of settlement, which, in order to prevent workpeople born in one part of the country from becoming "chargeable" on the rates of another part, greatly limited their right to move. "It was often more difficult," Adam Smith wrote, "for a poor man to pass the artificial boundary of a parish than an arm of the sea or a ridge of high mountains." Again, at the present day, mobility between occupations is, in some cases, considerably impeded by the demarcation rules of a number of Trade Unions—rules which attempt to reserve particular

jobs to workers at a particular trade, and forbid, under threat of a strike, that they should be undertaken by other tradesmen. A bricklayer, for example, is not allowed by his Union to do stone-mason's work, or a pattern-maker to do joiner's work. For the most part, however, in the modern industrial system, the impediments which hinder movement to those who desire it, whether as between places or between occupations, may be grouped together under the general head of "costs of movement."

In this connection we have first to observe that, from the present standpoint, "the costs of movement between any two centres of demand A and B, are not necessarily the actual costs, but may be a lesser amount, which we may call the 'virtual' costs, and which consist of the sum of the costs of movement along each of the separate stages that lie between A and B. When the costs in view are merely costs of physical transport, this point is not, indeed, likely to be important. For, in general, long-distance journeys are cheaper per mile than short-distance journeys, and, therefore, there will not exist a virtual cost smaller than the actual cost. If, however, the costs in view are those arising out of the need of learning particular accomplishments, the case is quite different.

The costs of transport, in this sense, between the occupation of agricultural labourer and that of master manufacturer may be infinite; but those between agricultural labourer and petty shopkeeper, between petty shopkeeper and large shopkeeper, between large shopkeeper and departmental manager, between departmental manager and general manager, between general manager and master manufacturer, may all be small. The same class of consideration is applicable, when the cost is due to such things as the subjective burden of leaving one's home and settling elsewhere. Probably this cost, in respect of a movement of a thousand miles, greatly exceeds that involved in two hundred movements of five miles each. So far as frontier inhabitants between two countries are, in general, familiar with both languages, the obstruction due to difference of language is similarly diminished in efficacy. A good illustration of the point I am here enforcing is afforded by the following account of mediæval France. 'If Lyons had need of workmen, it called upon Chalon-sur-Saône, which supplied them. The void made at Chalon was filled by men drawn from Auxerre. Auxerre, finding that less work was offered than was required, called to its aid Sens, which, at need, fell back upon Paris. . . . Thus, all the different places

were stirred at once by a demand for labour, however distant that might be, just as a regiment in column, marching in one piece and only advancing a few paces, would be.' This class of consideration is obviously of great importance." [13]

We may now look at the costs of movement somewhat more in detail. As between two given places, we perceive at once that they include, not only the sheer money cost of travel to a workman who contemplates moving, but also the wrench involved in leaving his friends and the district with which he is familiar. The money cost, of course, becomes less in any country, as the means of communication are developed, and transport, therefore, becomes cheaper. The other element of cost, in like manner, becomes less as the speed of travel is increased, because, as this happens, it becomes easier for workpeople to change the seat of their work without having at the same time to change their homes. As between two given occupations, the costs of movement become less, the more closely industrial progress causes the operations required in one occupation to resemble those required in another. At the present time there appears to be a distinct tendency in this direction. M. de Rousiers writes: "More and more the constantly

developing applications of machinery are approximating the type of the mechanic to that of the shop assistant. The shop assistant passes readily from one kind of commerce to another, from drapery to provisions, from fancy goods to furniture, so much so that, at the present time, retail shopkeeping, in the hands of men of superior ability, is no longer confined to one or another single branch, but takes on the form of the large general store. Manufacture cannot yet pretend to so large a range, but, just as an assistant passes easily from one counter to another, so the workman passes easily from the supervision of one machine to the supervision of another machine, from the loom to boot-making, from paper-making to spinning, and so forth." [14] This development implies that specialized technical skill is coming to play a smaller part in industrial operations, relatively to general capacity, than used to be the case; and this means that the costs of the new training required to enable a workman to move from one occupation to another are becoming smaller. So far, we have spoken of movement between places and movement between occupations separately. But, of course, in the concrete, movement from one occupation to another may well necessitate, at the same time, movement

from one place to another. Hence, the aggregate costs of movement from one occupation to another are kept low, when kindred occupations, in which the fluctuations of demand for labour more or less compensate one another, are carried on in the same neighbourhood; and the reduction of costs is still greater when these occupations are conducted in the same establishment. It is, therefore, especially interesting to read in a recent Board of Trade Report: "The more competent and thoughtful employers endeavour to overcome the natural fluctuations of the seasons by superior organization. With the manufacture of jam and marmalade they combine the making of sweets and the potting of meats. They thus occupy the time of the majority of their employees. An artificial florist, employing over two hundred girls and women in a trade which occupies six months of the year, has introduced a second trade, the preparing of quills for hat-trimming, and now the workers are employed all the year round. In Luton, where the staple trade is straw-hat making, and where work is always slack during six months of the year, felt-hat making has been introduced; and it is now very usual to find the two trades carried on by the same firm, employing the same workpeople at different periods of the

year." [15] The adoption by enlightened employers of this policy—a policy which is in many cases to their own economic advantage—necessarily reduces the costs of movement, and thereby augments mobility.

Before this chapter is concluded something must be said of another matter which, so far, has been, of set purpose, ignored. The effects of improved knowledge concerning the demand for labour, and of diminished costs of movement from place to place and from trade to trade have been discussed without reference to the method by which the improved knowledge may have been won, or the costs of movement reduced. And, indeed, so far as the influence exerted on the average volume of unemployment is concerned, it is a matter of indifference whether these changes are brought about, as it were, automatically by the progress of ideas, or whether information and the means of movement are supplied more cheaply to individual workpeople, not because they have become cheaper to produce, but because a part of the cost of them is borne on the shoulders of other persons. These two forms of cheapening, however, though they react in the same way upon unemployment, do not react in the same way upon other elements of social welfare. Cheapening to the workpeople consequent

upon a real cheapening of production is undiluted gain. Cheapening of the other sort, however, implies that a greater quantity of resources is invested in the work of securing knowledge and effecting movement than would normally be devoted to that work. It implies, in fact, that a particular form of investment is being stimulated by means of a bounty. Economic analysis, however, warns us that, as a general rule, bounties lead to economic waste. "There is not a little reason to suspect that such waste actually occurs, to some extent, as a result of the system of artificially cheapened workmen's tickets, that has been introduced on the Belgian railways. The following passage from Dr. Mahaim's interesting monograph is strongly suggestive of this conclusion: 'A villa had to be built in the suburbs of Liège, where, assuredly, there was no lack of labour. The contract was secured by a builder from Nivelles. He employed exclusively Brabant workpeople, who came in, some every day and some every Monday. Not one iota of the general labour required was executed by Liège men.' There are other passages of like effect, suggesting that the bounty—for such in effect it is—which the State pays upon workmen's tickets tempts employers in one place, when they are given work to do in

another, to have workmen transported there, despite the fact that suitable labour could be found for the job in the place where it has to be done. This leads to something very like a double transference of gold, instead of the use of bills of exchange, in the settlement of the accounts of international trade—a process that is necessarily wasteful to the community as a whole, whether or no the fiscal arrangement in vogue makes it wasteful to the individuals undertaking it. The presumption thus established against the grant of a bounty to the industry of promoting mobility is, however, merely a special case of the general presumption against the grant of a bounty to any industry. In the present instance, as in all other instances, it may be overthrown, if there is reason to believe that, in the absence of a bounty, investment in the industry in question would not be carried far enough to yield the maximum social advantage."[16] As regards the industry of promoting the mobility of workpeople, partly because that industry is one whose product it is difficult to sell satisfactorily for fees, there does seem reason to believe this. Consequently, up to a point, it is probable that the expenditure of public money in improving mobility would not merely lessen unemployment, but would, at the same time, increase welfare as a whole.

It is necessary, however, for the State to watch this expenditure carefully; for, if it is carried too far, the benefit which it yields in the matter of unemployment will be at the expense of more than equivalent injury elsewhere.

CHAPTER XI

DIRECT STATE ACTION TO LESSEN UNEMPLOYMENT

In the course of the preceding chapters indications have been given, from time to time, of various ways in which action by public authorities might indirectly serve to lessen the average volume of unemployment. Reference was made, for example, to the possibilities, under this head, of an improved policy as regards education, of a modification of the currency system, and of the development of an organized network of Labour Exchanges. It may well be held, however, that remedial action by public authorities need not be confined to these indirect measures, but that there is room also for direct attack through policies deliberately designed to lessen the fluctuating character of the demand for labour. It, therefore, becomes important to inquire

what success may be expected to attend action of this character.

At the outset of the inquiry a preliminary objection has to be overcome. It is sometimes urged that the aggregate wage-fund at any moment is rigidly fixed, and that, therefore, though it is, of course, possible in various ways to increase the demand for labour in any particular part of the industrial field, this can only be done at the expense of lessening, in a corresponding degree, the demand in other parts. This is equally true, it is maintained, whether the increase in demand in the particular part is brought about by means of a bounty to private employers, or through the employment of labour by the public authorities themselves. The argument in this latter aspect is forcibly expressed in the report of the Transvaal Indigency Commission. "Wealth," the Commission declares, "is the only source from which wages are paid, and the State must levy taxation in order to pay wages to its workmen. When, therefore, a Government gives work to the unemployed, it is simply transferring wage-giving from the individual to itself. It is diminishing employment with one hand, while it increases it with the other. It takes work from people employed by private individuals, and gives it to people selected by the State."[1] Now, if

the general type of reasoning, of which the above sentences are a particular example, is valid, it is clearly impossible for any governmental authority, either by direct action or indirectly through fiscal devices, to lessen the fluctuating character of the demand for labour as a whole. Such reasoning, however, is not valid. It is, indeed, true that the State is unable, by action of the kind contemplated, to increase the demand for labour on the whole on the average of good and bad times together. This consideration is, furthermore, exceedingly important; for it is fatal to all schemes designed to diminish unemployment by the devotion of a fixed annual sum to the conduct of new industries, such as planting forests or building military roads. But it is not true that the State is unable to increase the demand for labour in bad times at the cost of diminishing it to a more or less corresponding extent in good times. To establish this point, it is necessary to look behind the machinery of money payments to the real transactions which these payments represent and facilitate. When this is done, we perceive that, in any country at any moment, there is flowing into warehouses and shops from various centres of production a continuous stream of goods. At the same time there are flowing out two other continuous streams,

embodying, respectively, the goods about to be consumed by the propertied classes and the goods about to be handed over by members of these classes as payments to induce Labour to perform further services. The argument of the Transvaal Commission, and other like arguments, imply that the volume of the stream flowing out towards Labour is rigidly determined by the volume of the stream flowing into warehouses and shops. In reality, however, it depends, not only upon this, but also upon the volume of the other outflowing stream, together with the depth of the reservoir of goods standing in store between the inflowing and the outflowing streams. To simplify the discussion, let us suppose—a supposition which tells against the case I am endeavouring to establish — that the consumption of the propertied classes is absolutely constant. In this case, if commodities passed immediately from the seat of their production to the hands of consumers, so that there was no reservoir of stored goods intermediate between the two, no means would exist by which governmental or any other authority could modify the stream flowing out towards Labour, when once the volume of the inflowing stream was given. But, since, as a matter of fact, there is always and necessarily a very large inter-

mediate fund of goods temporarily in store, such means do exist. If it is desired to make the outflowing stream more constant than it would normally be, all that the public authority needs to do is to borrow (in effect) from warehouses and shops, when the demand for labour is low, resources with which to increase the demand, and to pay back its borrowings at the expense of the outflowing stream when the demand again becomes high. Of course, it is true that, if the method adopted is literally the raising of a loan, with which to employ labour in bad times, a part of the funds obtained will come from resources that would otherwise have been flowing out in the purchase of labour by private employers; but it is also true that another part will come from resources that would have been in store. Of a million pounds borrowed by governmental authorities in bad times—either directly, or through private firms stimulated to such borrowing by bounties—and expended in the employment of labour, not all represents a net addition to the demand for labour. A part of the million pounds, however—and there is reason to believe, a not inconsiderable part—does represent a net addition; and this is all that is required to overthrow arguments of the kind employed by the Transvaal Indigency Commission.

The above preliminary objection being disposed of, we may next observe that no *essential* distinction exists between cases, in which public authorities manipulate the demand for any sort of labour by modifying the conduct of industries directly related to themselves, and cases in which, by means of bounties and taxes, they modify the conduct of industries in which private persons are exclusively concerned. No doubt, it may sometimes be practically easier for them to take action in respect of industries where they are themselves the employers, or where, through the placing of government orders, their demand plays an especially important part, than it is in other cases. This, however, is a secondary and subordinate distinction. The essential distinction is that between cases in which manipulation is introduced, respectively, from the side of production and from the side of consumption. It is necessary to examine successively these two general cases.

To take first the case of manipulation from the side of production, let us suppose that a public authority, either directly or by fiscal interference, increases in bad times, and decreases in good times, the quantity of labour employed in some of the centres engaged in the manufacture of some given commodity.

The effect on the average volume of unemployment can be analysed as follows. If the commodity is one that is rapidly perishable, so that the consumption of it must take place, if at all, immediately after it is made, the quantity of it, which is offered for sale by the centres affected, is exactly the same as the quantity that is produced. In this case, therefore, manipulation, so introduced as to increase the output of these centres in bad times, must indirectly lower prices, and thus check output in the other centres belonging to the industry. When the centres whose output has been artificially enlarged constitute only a small part of all the centres engaged, it can be shown that the diminution of output in the other centres will be *almost* as large as the initial increase. An analogous conclusion holds good of manipulation introduced to decrease the output of the centres affected in good times. It follows, therefore, that public action, which proceeds by steadying production in a small number of centres dealing with perishable goods, creates indirectly almost as much unsteadiness of output and, hence, of demand for labour as it directly destroys. Not much, therefore, is to be hoped from action of this kind as a means to lessening the average volume of unemployment. The prospect is somewhat

better when we have to do with an industry engaged in the production of a durable commodity. In this case, the changes in quantity of output that are induced in the centres affected are, in general, greater than the changes in the quantity offered for sale. When output is artificially encouraged, a part of the extra output goes into store; and, when it is discouraged, a part of the contraction represents what would have gone into store. But it is only the difference in output offered on the market that reacts on price, and, hence, on the output of other centres. It follows that the increased steadiness of demand for labour introduced into the manipulated centres is less nearly cancelled by increased unsteadiness in competing centres, when the goods made by them can be stored than when they are immediately perishable. Whether they are perishable or not, however, there must, when only a small proportion of the centres of production that make up a market are manipulated, be a very considerable amount of cancelling. For example, "convincing testimony was given on behalf of the Firewood Trade Association that the adoption of wood-chopping as the task at the Labour Homes of the Church Army, as well as in many workhouses, had definitely resulted in ruining independent wood-

chopping firms, in throwing many men out of employment and in reducing some to actual pauperism." [2] The amount of cancelling gradually diminishes, as the body of producers, whose output is manipulated, becomes a larger proportion of those embraced in a market; and, if manipulation covered the whole market, there would be no cancelling at all. The prospect of effective action against unemployment by manipulation introduced from the side of production is, therefore, better, the more widely it is found feasible for the act of manipulation to be extended. At the present time, however, there appears to be little scope for the adoption of any really effective policy along these lines.

We now turn to manipulation introduced from the side of consumption. Here, as before, it is obvious that the manipulation can take place equally well in respect of demands not associated with public authorities—by resort to bounties and taxes—and in respect of demands that directly emanate from them. As a matter of practice, this form of manipulation, where it has occurred at all, has usually been introduced in connection with the latter sort of demands. In the following section, however, in order to keep prominent the fact that the argument has a wider reach than this, I shall speak, not of

the demand *of* the public authority, but of the demand *manipulated by* the public authority. For the development of the argument, we may conveniently distinguish between cases, in which this demand necessarily manifests itself at irregular intervals, and cases in which there is no necessity of that kind. In both sets of cases, we may assume—what is evidently in general the fact—that the labour affected by the demand manipulated by the public authority does not include all the labour of a given type, but that there is also a considerable mass of such labour engaged elsewhere.

Boards of Guardians in ordering stores, the Board of Admiralty in ordering ships, the War Office in calling up portions of the Special Reserve for training, and Municipalities in carrying through certain kinds of occasional work—such as the making of road surfaces—exercise a demand, which necessarily operates, not smoothly and continuously, but, as it were, occasionally, in fairly large jets. To a certain extent, the public authorities concerned are free to choose at what times these separate intermittent masses of demand shall be brought into play. No doubt, in some circumstances, the moment of their incidence is practically dictated by influences which it is impossible to resist.

When a war threatens, for example, there can be no question of allowing care for the steadiness of employment to affect the time at which the Admiralty order ships. In many cases, however, it makes very little difference, either to public convenience or to the public purse, in what way the time-incidence of these irregular demands is arranged. In such cases, it is open to public authorities considerably to lessen the fluctuating character of the demand for labour by dovetailing irregular public demands into the interstices of the demands of private industry. A policy of this kind " is embodied in the proposal of the recent British Poor Law Commission concerning irregular municipal work. They write: ' So far as it may be inevitable to employ occasionally other than their own regular workers, or to place contracts, we think that it may be desirable for public authorities to arrange such irregular work so that, if possible, it comes upon the labour market at a time when ordinary regular work is slack. This point has been well put by Professor Chapman, who suggests that, so far as the public authorities' demand for labour fluctuates, it is desirable to liberate such demand from the influences of good and bad trade and seasonality, and then deliberately to attempt to make it vary inversely

with the demand in the open market.' The policy, thus sketched out, is sometimes stimulated by the Central Government, through a judicious employment of grants in aid to municipalities in times of depression." [3] There can be no doubt that it is a policy capable, if reasonably executed, of appreciably diminishing the average volume of unemployment.

We may now pass to cases in which the demand manipulated by a public authority is not one that recurs at intervals, but is more or less continuous in character. In these cases we have to investigate the effect of action on the part of the authority designed to render its demand more stable than it would naturally be. Generally speaking, the fluctuations, which normally occur in the public demand, are not likely to be directly compensatory to those which occur in other demands for the commodity concerned. It is, therefore, probable that increased steadiness in the manipulated demand will carry with it increased steadiness in the manipulated and the other demands combined. When this happens, unemployment *must* be diminished. Hence it follows, in general, that a policy designed to do away with, or to diminish, such fluctuations as would normally occur in the demand manipulated

by a public authority for the things made by any class of labour will *probably* diminish the volume of unemployment. Public authorities, like private persons, but in a much higher degree, have it in their power to lessen unemployment by making a slight sacrifice of convenience or of money interest, in order to render their demands steadier than they tend, in the ordinary course, to be.

The above conclusion is clear and free from doubt. There arises out of it, however, a suggestion involving more difficult considerations. Steadiness in the demand manipulated by public authorities is admittedly better, from the standpoint of unemployment, than the kind of unsteadiness which the free play of economic forces would generally set up. But, it may be asked, would not a still more favourable result be attained if the demand manipulated by the public authority, in place of being made steady, were made to fluctuate in a manner definitely compensatory to the fluctuations of other demands for the commodity concerned. If, for example, the number of men of any given class required in private industry varies between 100,000 and 150,000, is it not better that the demand of public authorities for such men should be high when the private demand is depressed and low when that

demand is expanded, rather than that it should be identical in both periods? The view that this is the case—that a policy of deliberately introducing into the demand of public authorities fluctuations complementary to those occurring in private industry is desirable—is strongly maintained, among others, by the Minority of the recent British Commission on the Poor Laws. So convinced, indeed, are these writers of the justice of their opinion that they base upon it, with many words of praise and promise, a highly elaborated scheme of national policy. "We think," they declare, "that there can be no doubt that, out of the 150 millions sterling annually expended by the National and Local Authorities on works and services, it would be possible to earmark at least four millions a year, as not to be undertaken equally, year by year, as a matter of course; but to be undertaken, out of loan, on a ten years' programme, at unequal annual rates, to the extent even of ten or fifteen millions in a single year, at those periods when the National Labour Exchange reported that the number of able-bodied applicants, for whom no places could be found anywhere within the United Kingdom, was rising above the normal level. When this report was made by the Minister responsible for the National Labour Exchange

—whenever, for instance, the Percentage Unemployment Index as now calculated rose above four—the various Government Departments would recur to their ten years' programme of capital outlay; the Admiralty would put in hand a special battleship, and augment its stock of guns and projectiles; the War Office would give orders for some of the additional barracks that are always being needed, and would further replenish its multifarious stores; the Office of Works would get on more quickly with its perpetual task of erecting new post offices and other Government buildings, and of renewing the worn-out furniture; the Post Office would proceed at three or four times its accustomed rate with the extension of the telegraph and telephone to every village in the kingdom; even the Stationery Office would get on two or three times as fast as usual with the printing of the volumes of the Historical Manuscripts Commission, and the publication of the national archives." [4] In this passage it is taken for granted that the introduction into the demand of public authorities of fluctuations compensatory to those occurring in private demands would necessarily lessen the volume of unemployment. As a matter of fact, however, that result is not a necessary one. When labour is completely mobile between the

centre of demand manipulated by the public authority and that occupied by the private firms whose fluctuations are to be compensated, it must, indeed, come about. When, on the other hand, as between these several centres, labour is completely immobile, the reverse of it must come about. There will be no less unemployment than there would have been among the men attached to private industries, and there will be more than there would have been among those attached to public industries—for the reason, as argued previously, that the artificially enlarged fluctuations will attach to these industries an artificially enlarged number of men, for all of whom there cannot be permanent work. In real life, of course, labour is nowhere either completely mobile or completely immobile, but possesses always some intermediate degree of mobility, the precise intensity of which is different in different places and occupations. We may, however, lay it down, in a general way, that the introduction of compensatory fluctuations is likely to lessen unemployment when mobility is considerable, but to increase it when mobility is slight. For example, if a municipal enterprise, employing a number of men precisely similar to those employed on the same class of work by private firms inside its borders, makes its demand fluctuate inversely

with that of those firms, unemployment is practically certain to be lessened. If, however, a State Department makes the demand for labour employed on the national forests fluctuate inversely with the demand of city industries employing artisans and mechanics, there is great likelihood that unemployment will be increased. It should be added, of course, that cases in which, as things stand at present, the introduction of compensatory fluctuations would do harm, may become, if mobility is improved, cases in which it would do good. The presumption in favour of the Minority Commissioners' policy in all its applications tends, therefore, to become stronger, as Labour Exchanges and other instruments of mobility are developed and rendered more efficient.

Hitherto, attention has been directed to forms of manipulation, whether introduced upon the side of production or of consumption, the character of whose effects upon unemployment is only open to doubt in one particular. There remains for discussion, however, a more complex form of manipulation, the consequences of which cannot be traced with equal certainty. I refer to legal limitation of the permitted hours of overtime. At first sight, it would seem that such limitation must necessarily lessen the volume of un-

employment, at all events when applied to industries other than those producing immediately perishable commodities. For does not the restriction of overtime in boom periods lead indirectly, in the preceding bad times, to increased making for stock, and to increased purchases by consumers in anticipation of future needs? The latter point is well illustrated by the following passage from the Minority Report of the Royal Commission on the Poor Laws: "The variations in the consumer's pressure can be made much less extreme by means of a legal limitation of the hours of labour. When the hours of cotton-operatives were settled by the individual mill-owner, cotton-spinning and weaving were extreme instances of seasonal trades; and the manufacturer was unable to resist the customer's insistence on instant delivery. Now that the maximum hours are legally fixed, the buyer has learnt to be more regular in his demands. The extreme seasonal irregularity of the London dressmaking trade would undoubtedly be mitigated, if dressmakers were absolutely prevented from working more than a fixed maximum day. Customers would simply not be able to insist on delivery in an unreasonably short time." [5] Nor is even this all. Since the extremes of booming demand do not fall at the same time upon all

the firms engaged in an industry, the legal limitation of overtime is apt to lead firms that are exceptionally busy to meet the rush in part by giving out work on commission to other firms; and this means, of course, that the demand for labour in a typical representative firm is rendered more stable than the orders for goods given to it by the public. Against these various considerations suggesting that the restriction of overtime is likely to lessen unemployment, there must be set a very important consideration of a contrary tendency. The limitation of overtime, besides leading to the various reactions just indicated, would have the effect of tempting employers in the industry affected so to raise their wage-rate as to attach to that industry a larger number of hands. The resource of overtime, by which periods of booming trade could formerly be met, being restricted, they would be driven back on the alternative resource of more men. This, however, implies more unemployment in bad times, and, therefore, a larger volume of unemployment on the whole. It is probable that, in some cases, this influence will outweigh, and that, in other cases, it will be outweighed by, those other influences of restriction which tend to lessen unemployment. The more perfect is the mobility of

labour, and the greater is the extent to which the fluctuations of demand in the different parts of the industry affected tend to cancel one another, the greater is the likelihood that the volume of unemployment will, on the whole, be reduced.

When, on the basis of this analysis, the political question is raised whether any of the various forms of manipulation designed to lessen unemployment, that have been discussed in this chapter, ought to be undertaken by public authorities, it is sufficiently obvious that the answer cannot be general, but must depend on a balancing, in each particular case, of the probable gain of lessened unemployment against the probable social cost of the means employed to bring about that gain. As regards the dovetailing of occasional public demands into the interstices of private demands and the steadying of public demands that are naturally variable, there can be little doubt that considerable investment in these policies might advantageously be made. This is especially the case where the industries, which it is proposed to manipulate, are engaged in the production of durable commodities. For it is evidently less wasteful to make a thing at a time when the demand for it is low, if that thing can be stored against a keener demand in the future,

than it is if the thing must be consumed immediately. As regards the policy of deliberately making the demand of public authorities variable, in such a way as to compensate variations of private demand, and as regards the legal limitation of over-time, the case is more doubtful. The latter policy, however, may find powerful support in a consideration additional to those of which account has here been taken. This consideration is that over-time pressed unduly threatens the health, and interferes with the private life, of the workpeople affected; and that, therefore, legal limitation of it is, from one point of view, a means of protection against injurious exploitation of the economically weak.

CHAPTER XII

THE DISTRIBUTION OF UNEMPLOYMENT

In accordance with the programme laid down at the close of Chapter III we have been concerned exclusively during the eight preceding chapters with the volume of unemployment that prevails on the average, when account is taken of good and bad years together. Recognizing that, other things

being equal, the total mass of social evil associated with unemployment is likely to be greater or smaller, according as this volume is greater or smaller, we have investigated the causes, upon which the average quantity of unemployment depends, and have endeavoured to indicate devices by the adoption of which it might be diminished. This part of our inquiry is now completed. But there remains another part. For, though, as the discussion of Chapter III made plain, the quantity of social evil due to unemployment over any period depends in part upon the volume of unemployment, it does not depend exclusively upon this volume. On the contrary, over any period, the same volume of unemployment may be responsible for different quantities of social evil, according to the way in which it is distributed among the workpeople, and according to the measures of protection against its consequences which the community adopts. In the present and two following chapters, therefore, the volume of unemployment that prevails on the average will be regarded as given, and attention will be directed to certain important influences by which, in these circumstances, the evil consequences resulting from it may be limited and controlled. The influence to be discussed in this chapter is that exercised by

the manner in which unemployment is distributed among different wage-earners.

It is obvious enough that the volume of unemployment prevailing at any time may either be concentrated upon a small number of workpeople or scattered fairly evenly over a large number. It should be recognized, indeed, that, just as in the conception of "fluctuating character," which was discussed in Chapter VII, so also in the conception of "concentration," ambiguities are latent. For it is easy to imagine arrangements, one of which appears the more concentrated in the light of one criterion, while the other appears the more concentrated in the light of another and apparently not less plausible criterion. Still, in most cases of practical importance, this kind of difficulty does not obtrude itself. For our present purpose we may lay it down broadly that, in industries where bad times are predominantly met by the dismissal of hands, unemployment will be concentrated fairly closely upon a limited number of men, the same least efficient persons being selected for dismissal on nearly every occasion; while, in industries, such as coal-mining and the cotton industry, where bad times are predominantly met by the practice of short-time (or a short working week), unemployment will be spread widely among many men. Thus, from the present

point of view, the practice of meeting bad times by dismissals is roughly equivalent to the concentration of unemployment, and the practice of meeting them by short-time to the spreading of unemployment.

So much being understood, it becomes our task to disentangle the principal causes, by which the choice between the concentration of unemployment (that is, the dismissal method) and the spreading of unemployment (that is, the short-time method) is determined. Before this task is undertaken, however, it is necessary to consider a possible complication. It may be suggested that the manner of distribution of unemployment will itself, in some circumstances, react on the quantity of unemployment, and that, therefore, these reactions, as well as the direct consequences of the distribution, need to be investigated. One form which this suggestion may take is readily disposed of. In Chapter V a study was made of the effects of the establishment, by a Trade Union or otherwise, of an artificially high wage-rate in a limited part of the field served by workpeople of a given grade; and it was shown that, if all the work available in the favoured part is concentrated upon a more or less permanent staff, and, therefore, by implication, if all the unemployment is concentrated upon whatever other men may

be assembled there, these other men will be driven away and will find employment elsewhere. In this class of case it might seem, at first sight, that concentration of unemployment must involve a reduction in its volume. That appearance is, however, delusive; for, in the case contemplated, concentration of unemployment only exists for a moment, as a stage towards the disappearance of unemployment. When things have adjusted themselves, there is, indeed, concentration of *employment* in the part of the industrial field under review, but there is, and can be, no concentration of *unemployment*, for the simple reason that no unemployment exists. This form of the suggestion need not, therefore, disturb us. There remains, however, a more truly relevant form of it. When a depression in any part of the industrial field is met by the devices of short-time or the short working week, by which unemployment is spread widely, the probability that workmen will move from that part of the industrial field to other parts, where full employment could be accorded to them, is, the suggestion runs, notably lessened. This suggestion is important because it can be used as an argument against the expedient of short-time. The contention is that, when conditions are such that a definite cost to the worker

is involved in his moving from the depressed centre to another centre in need of hands, the advantage of movement is much more likely to outweigh the cost and to induce men to move, if the alternative is complete idleness for some, than if it is partial idleness for all. When the conditions contemplated prevail, this reasoning is undoubtedly correct; and it is true that, if the unemployment that occurs is spread widely, the aggregate quantity of unemployment is likely to be larger than it would be under a system of greater concentration. It may, however, fairly be replied, first, that the effect on the volume of unemployment is likely in any event to be small; and secondly, that when short-time is extensively adopted as a means of meeting depressions, it is more apt to take the form of organized short-time throughout a whole industry—as in the cotton industry of Lancashire—than that of independent short-time at isolated centres. Since, however, as between a whole industry and other occupations, temporary movements of workmen can rarely take place to any appreciable extent, the fact that short-time somewhat obstructs such movements can produce no significant effect. Consequently, though it must be admitted that, in certain special cases, the distribution of unemployment by way of

spreading, instead of by way of concentration, may somewhat enhance the volume of unemployment, the matter is of trifling importance. We may, therefore, safely leave it out of account, and proceed, without reference to it, to a discussion of the influences by which the choice between the concentration and the spreading of unemployment is determined.

Now, it is quite obvious that several influences, which are important in this connection, must have already made their appearance in these pages; for the extent to which a given volume of unemployment is concentrated upon a small number of workpeople, or spread among a large number, must depend in part upon the nature of the causes by which it has been called into being. It is no part of my purpose, however, to review again, from a different point of view, influences whose operation has already been discussed. Rather, the extent of the fluctuating character of demand, the wage-rate and the circumstances affecting mobility will be taken as given, and inquiry will be focussed upon certain other and less remote influences, of which little has been said so far, but whose presence is, none the less, of great significance. A little reflection shows that the most important among these are three in number.

First, as was pointed out in Chapter V,

even under piece-wages, and, still more markedly, where time-wages prevail, incompetent workpeople are apt, when employed, to be paid a somewhat higher wage-rate *per unit of efficiency* than competent men receive. This circumstance tends to bring it about that, whenever conditions are such that employers are driven to reduce their production, they find it more profitable, other things being equal, to dismiss the less competent among their hands, rather than to place both the less and the more competent upon short-time. The pressure exerted in this way in favour of a policy of dismissal is naturally stronger in wage-systems where the differentiation in favour of the incompetent is large than in those where it is small. It is, therefore, interesting to observe that, in the United Kingdom, industries paying time-wages predominantly dismiss hands, while industries paying piece-wages, such as coal-mining and cotton spinning, predominantly work short-time.[1]

Secondly, an influence of some importance, with a tendency contrary to the preceding, arises out of the technique of production. In certain industries, a number of important charges are incurred so long as a factory is running at all, whatever the number of the men actually at work may be—charges, for

example, connected with the supply of artificial light or of power from a central station. In these industries there is naturally a tendency to reduce output, when necessity arises, by resort to short-time or a short working week rather than by dismissal of hands. In other industries, indeed, there are few charges that can be reduced by a diminution in the working time of a factory more effectively than by an equivalent diminution in the number of hands employed. In all cases, however, it would seem that technical incidents of the above class are likely to be favourable, in *some* measure, to the practice of short-time and short work, though the pressure exerted by them will vary from industry to industry, and will sometimes be very slight.

The third and remaining influence relevant to our problem is as follows. In some occupations employers manifest great unwillingness, when bad times come, definitely to sever their connection with workpeople who have become known to them. The reason for this unwillingness, where it exists, is manifest. If tried men are dismissed, it may be found, when next they are required, either that they have obtained a job elsewhere and are no longer available, or that, not having obtained a job, their technical and general efficiency has been gravely

impaired by a long spell of idleness. In cases where other men equally satisfactory to an employer can be engaged without difficulty, this circumstance need not affect him. In many instances, however, men who have already worked for a particular employer have attained, by that very fact, a special value *to him*, in excess of that belonging to other men of equal *general* efficiency. In these cases the circumstance that the temporary dismissal of a workman may interfere with the subsequent re-engagement of him must affect the employer, and must generate in him unwillingness to dismiss. This unwillingness is specially likely to be present in occupations where knowledge of their workmen's character is important to employers, whether because valuable materials are used or for any other reason, and also in occupations where acquaintance on the part of the workpeople with the peculiarities of a particular factory or with the special processes of a particular firm are important. As regards certain kinds of unskilled workers, however, the case is different. A man who has been employed before on a particular employer's job is not appreciably more valuable to him than one who has not been so employed. This is obviously the case with dock-labourers. There is no factory with peculiarities to be

known; the ships that have to be unloaded are different from day to day; a man who has served employer A to-day has gained thereby no extra economic value in his eyes. Consequently, except among specially philanthropic employers, aversion to dismissal does not tend to establish itself to any noticeable extent as regards this class of men.

The interplay of these three influences, acting with varying intensities and combined in different proportions, determines the choice between the policy of short-time and the policy of dismissal of hands throughout the industrial field. The results in different occupations are, as is shown by some interesting statistics recently collected by Professor Chapman, widely dissimilar. Thus, in the depression of 1908, a contraction of output of 13·3 per cent. in the cotton trade was met by 5 per cent. dismissal of hands and 8·7 short-time, whereas in the glass trade a contraction of 11·8 per cent. was met by 11 per cent. dismissal of hands, and less than 1 per cent. short-time. Summarizing his results, Professor Chapman writes: "Of the textile trades the cotton industry seems to be the most successful in avoiding the creation of the unemployed in times of trade depression, and the woollen industry appears to be more successful than the worsted. The boot and

shoe trade is wavering in its policy, but the iron and steel and glass industries throw off unemployed with every fluctuation of trade." [2] These divergences suggest that we may, perhaps, have to do here with a phenomenon into the complex character of which analysis has not as yet fully penetrated. Cautious statement is, therefore, desirable. It is, however, safe to conclude that the policy of short-time in periods of depression, and, therewith, the spreading of unemployment over a large number of workpeople, is specially likely to rule in industries employing skilled men and paying them piece-wages.

The preceding discussion of causes possesses significance on account of the relation that subsists between the social evil resulting from any volume of unemployment and the way in which that volume is distributed. To complete this chapter, therefore, we have to satisfy ourselves as to what precisely that relation is; to ask, in short, what different effect is produced on social welfare when the unemployment that occurs affect a small number of workmen in a great degree and when it affects a large number of workmen in a small degree. If the modern world were in the grip of an absolute, unbroken, rigorous system of *laissez-faire*, so that no man ever helped another, and the poor were never

relieved, this question would admit of an easy answer. The aggregate suffering involved when one man has two pounds and a second man has nothing is obviously greater than it would be if one pound belonged to each of them. There can be no question, therefore, that, subject to the qualifications mentioned on p. 194, the social evil resulting from a given volume of unemployment would be least when that volume was spread evenly over the working-classes, and that it would be made greater by every advance in the direction of closer concentration. In the actual world, however, where private charity and a public Poor Law everywhere prevail, the matter is less simple. Suppose, for example, that, in some industries, the conditions are such that, when unemployment is spread evenly among all the persons attached to an industry, none of these persons can earn sufficient for independent self-support, and all, therefore, need to have their incomes eked out by public or private benevolence; and suppose, further, that, by the concentration of all the work on one group of these persons and of all the unemployment on another group, the former group would be raised to the stage of adequate self-support, while the latter were thrown more completely on the hands of charity. In that case it will

hardly be disputed that social evil would, on the whole, be made less by a concentration of unemployment in the way described. We seem, therefore, to be led to the general conclusion that, as regards grades of work-people so well situated that all their members can attain to adequate earnings when unemployment is spread among them evenly, the spreading of unemployment is better than its concentration; while, as regards grades so badly situated that the spreading of unemployment forces the earnings of all below a reasonable subsistence minimum, concentration is better than spreading. In the former case the evil results of a given volume of unemployment would be diminished if the manufacturers in any industry were persuaded to adopt a policy of organized short-time in periods of depression. In the latter case the results of such a policy would be, not beneficial, but injurious.

CHAPTER XIII

INSURANCE AGAINST UNEMPLOYMENT

In the present chapter not only the volume of unemployment, but also the way in which

it is distributed among people, are supposed to be given. Even so, the quantity of social evil that results is not absolutely determined, but depends in part upon certain further influences, the general character of which it is now necessary to discuss. It is fairly plain that, in whatever way unemployment is distributed, whether it is concentrated upon a comparatively small number of persons or spread more evenly among a large number, the bulk of the individuals affected by it are affected in different degrees at different times. This would be the case, even if, at every single moment, the whole volume of unemployment then existing were spread evenly over the whole body of workpeople; because, as has already been explained, and as the mere appearance of our streets exhibits, the volume of unemployment and, therefore, in general, the number of persons unemployed, varies from time to time with general fluctuations of demand. As a necessary consequence, the wage-income of the individuals affected by unemployment fluctuates. It was shown, however, in Chapter III that a fluctuating income carries with it a fluctuating consumption; and that this involves an element of evil, from which a consumption of equal average amount, that did not fluctuate, would be free. This result implies that,

when the volume and the distribution of unemployment are both given, it will be to the advantage of those concerned to accept a certain diminution in their average consumption, if, by so doing, they can separate, by some form of buffer, fluctuations in consumption from fluctuations in income. It will pay them, in short, to consume somewhat less, in order to be able to consume more regularly. There follow two inferences. The first is that the evil consequences resulting from a given volume of unemployment will be less, the more efficient and economical are the arrangements to which workpeople are able to resort for the purpose of steadying their consumption; the second, that these evil consequences will be less, the more closely the amount of resources actually devoted by workpeople to the above purpose approximates to the amount that a full understanding of their true interests would dictate. The business of the present chapter is to work out the practical bearing of these two inferences.

In all circumstances it is possible to render consumption more steady than income by the device of storing away commodities in good times for the needs of the bad times that may follow. The case is *essentially* the same, whether persons in receipt of fluctuating incomes undertake the work of storage them-

selves, or induce other people to do this for them by offering interest or other consideration in return for intermittent loans. Direct saving by members of the working classes against periods of unemployment, defence against these periods by means of credits from shopkeepers and defence by means of loans obtained from pawnbrokers are not different devices, but merely different forms of the same device. Under all of them the essence of what happens is that somebody holds back from consumption, and maintains in store during the intervals between good and bad times, a certain quantity of resources. An average of a thousand pounds' worth of goods held in store in this way will, in all circumstances, avail to render consumption more steady than it would otherwise be. The people who are defending themselves against unsteadiness by means of it cut themselves off from this thousand pounds altogether, being free neither to consume it nor to obtain interest by investing it in some undertaking productive of material goods. If the incomes of all members of the community always fluctuated simultaneously and similarly, while needs and general tastes remained constant, this method of storing away commodities in good times would be the only way in which consumption, as between good times and

bad times, could be made more steady than income.

We may come nearer to real life by supposing that the incomes of all the *workpeople engaged in a particular industry* fluctuate simultaneously and similarly, but that there is no rigid association of this kind between their incomes and those of other members of the community. In this case, it is probable that the bad times of these workpeople will coincide with the good times of some other groups of persons. They can, therefore, be met in part by loans from these persons, not merely of commodities previously put into store for the purpose, but also of commodities coming into being at the moment. Thus, in order to get the same defence against unsteadiness that was yielded, in the conditions contemplated just now, by a thousand pounds' worth of commodities actually held in store, the workpeople concerned need only to *hold control over* a thousand pounds' worth of commodities, a part of which may, in the present instance, consist of such things as the fixed plant of productive enterprises. In other words, though they must still hold back a thousand pounds from consumption, they need not hold back as much as this from production also; they are still bound to save, or to

secure the saving of, a thousand pounds, but, instead of holding it all barren, they are now enabled to invest a part of it in interest-bearing enterprises. This means, in effect, that a given defence against unsteadiness of consumption can be obtained by them at a smaller real cost than was possible before.

The case which we have just considered would fairly represent the facts in an industry where the unemployment occurring at any moment was distributed absolutely evenly among all the workpeople; and it would also fairly represent them in an industry where this unemployment was concentrated as closely as possible upon a permanent known group of persons arranged in order on a preference list. In the former event everybody would know that a workman A could never be employed while another workman B was unemployed. In the latter event everybody would know that, though A might often be employed when B was unemployed, this same A could never be unemployed while B was employed. In neither of these cases, therefore, is there, in general, scope for any agreement to the effect that A shall help B when he is prosperous and B unfortunate, on condition that B accepts a reciprocal obligation. In real life, however, it seldom happens, either that the unemploy-

ment occurring in an industry is spread at any moment with the absolute evenness contemplated above, or that it is concentrated with the rigour there contemplated on a defined permanent group. Consequently, there *is* scope for arrangements involving mutual obligations between A and B. The acceptance of these mutual obligations provides, I propose to show, a means of defence against unsteadiness of individual consumption, much less costly than those that we have considered hitherto.

This fact can best be made plain by the use, in illustration, of an extreme instance. Let us suppose that the volume of unemployment in some given industry is known to be constant, and also that there is no reason at any moment to expect any one workman rather than any other to be unemployed. In this case each workman suffers a certain risk of unemployment, and the risks of all are equal. The fluctuations in individual consumption that normally result from unemployment can, therefore, be reduced to any extent that is desired by the collection of a weekly subscription from those in work for the benefit of those unemployed. Furthermore—and this is the present point—the steadiness induced in individual consumption will be secured *at no cost whatever;* for no

resources need be held back from consumption either in the form of stored commodities or in the form of commodities invested in productive enterprise. Of course, in real life, the volume of unemployment in an industry is never constant, and, if it were, could never be known to be so. Consequently, it is never in practice possible to abolish fluctuations in consumption at no cost. But, none the less, the device of "mutuality," an extreme case of which I have been describing, is of very great importance. Practically always resort to it can reduce, at no cost, *some* of that unsteadiness of individual consumption, which the irregular incidence of unemployment threatens. The *degree* of economy, indeed, which it can effect, varies, of course, with the circumstances. When fluctuations are due to seasonal or other general causes acting on the whole body of an industry, a considerable proportion of the unsteadiness experienced by the typical individual is, from the nature of things, incapable of being met otherwise than by the establishment of a store of commodities. In this case, therefore, no economy is possible. When again, the fluctuations of wage-income among individuals occur in a large number of small patches, representing, say, three days' unemployment at a time, consumption can be steadied without

resort to mutuality by the establishment of a very small store—much smaller than would be needed if an equal volume of unemployment occurred in the form of a small number of large patches. In this case, therefore, even though the adoption of mutuality should enable that store to be entirely dispensed with, only a very small economy would be made. These considerations should not be neglected. None the less, it remains true that the discovery of the idea of mutuality constitutes an important step in the improvement and cheapening of arrangements for rendering individual consumption steady in the face of fluctuating employment.

But the mere discovery of the idea of mutuality only constitutes a step *towards* these things. No actual difference is made by it, until machinery has been devised, through which, in combination with saving, it can be embodied concretely in an insurance scheme. Given the idea, the contribution which it can make towards the steadying of consumption is greater or less, according as the machinery embodying it can overcome, with greater or less success, the difficulties which oppose its practical development. Among these must be included that of adapting subscriptions and benefits to the different risks of unemployment to which

different workpeople are subject. A scheme demanding equal contributions from, and paying equal benefit to, workpeople who are sure to be unemployed frequently and workpeople for whom unemployment is a highly improbable contingency, can only be worked, if the more fortunate workpeople consent to make a gift to the less fortunate. Apart from this, the machinery of insurance must be so arranged as either to group in separate funds workpeople whose risks are different, or to furnish tariffs of contributions and benefits adjusted to the circumstances of different workpeople. Hitherto, as a general rule, separate funds have been constituted for Unions of men engaged in separate industries, the wholly inefficient being refused admission to the Unions; and it has been provided that benefit shall not become payable a second time, until a certain number of weeks' contributions have been made since the close of the preceding period of benefit. The class of difficulty against which these devices are directed is, however, subordinate and technical rather than fundamental. A much more important matter is that, in the case of insurance against unemployment, as in that of all other forms of insurance, the institution of insurance tempts insured persons to simulate, or, it may be, deliberately to bring about,

the insurable event. Unless this tendency can be held in reasonable control, insurance is impracticable. It is, therefore, essential that some study be made of the methods by which, in the special case of insurance against unemployment, the tendency can be combated.

It will be remembered that, in the first chapter of this book, unemployment was, in effect, defined as want of work on the part of a workman desiring to obtain work at the ruling rate of wages appropriate to his occupation. This is the insurable event in regard to which the dangers of voluntary creation and of simulation have now to be studied. Our task is, in some measure, simplified by the fact that the notion of involuntariness is embraced in the definition of unemployment. In the case of such an insurable event as sickness, it is at least possible, however improbable in practice, that people may make themselves ill on purpose. And, if unemployment had been defined simply as lack of work—an event not unpleasant in itself, but only in its effect on income—a system of insurance which in part cancelled this effect would, very probably, lead people to become unemployed on purpose. Since, however, we have defined unemployment as the state of being out of work *involuntarily*, it is impossible, in the nature of things,

for anybody to bring it about on purpose. Consequently, the danger of the deliberate creation of this insurable event is non-existent, and the whole of our attention may be concentrated upon the danger of simulation.

In the case of such an insurable event as death or—when a proper system of birth registration exists—of old age, simulation is practically impossible. When the event is unemployment as defined above, one conceivable form of simulation is almost equally out of the question. If a man is really at work, he can scarcely pretend not to be and escape detection. A simple rule, such as that often enacted by Trade Unions and adopted in the administration of the British Unemployment Insurance Law, of requiring men in receipt of out-of-work benefit to sign the vacant book daily at some time that falls within normal working hours, affords a complete safeguard. The possibility of simulation of this kind is, therefore, a matter of no practical importance. Until recently, however, the case was very different with that form of simulation, which consists in being out of work on purpose and pretending to be out of work involuntarily. It was easy to abandon a job on plausible grounds and to be unenthusiastic in the search for a new one; and it was hard for anybody to prove

that a man was shirking in this way. This circumstance, more than any other, has been responsible for the fact that practically all the systems of insurance against unemployment, which have had any measure of success, have been worked through Trade Unions of workpeople engaged in the same industry and working together in groups. For, though to guard against the kind of simulation we have been discussing is always hard, it is probably least hard when benefit is arranged in such a way as to make a man's neighbours and comrades in work interested inspectors of his conduct. Of late years the development of an organized system of Labour Exchanges in the more advanced industrial countries is beginning to change the situation. In former times the workman's task included, not only doing his work, but also finding it; and, though his Trade Union might, by collecting information, greatly help him in the search, it made no pretence of undertaking the search for him. The modern Labour Exchange, however, when it is developed so far as to constitute, not merely a bureau of information, but an actual centre of engagement, will itself take over the task of searching for work. The individual workman, no longer having to perform that task at all, cannot be made slack about it by his knowledge that unemployment

benefit exists. It will no longer be possible for anybody to pretend to be out of work involuntarily, when he is really out of work on purpose. If he is out of work in spite of an offer of work from the Labour Exchange, then he will certainly be out of work on purpose; if he is out of work because the Labour Exchange is unable to make him an offer, he will as certainly be unemployed in the strict sense. The importance of this point is recognized in the almost universal emphasis, which is laid in continental schemes of subsidized insurance against unemployment, upon the value of associating these schemes with some form of Labour Exchange. "In Cologne and Berne the Insurance Fund and the public Labour Exchange are practically amalgamated. In Strassburg, Milan and Antwerp, receipt of subvention by an unemployed person under the 'Ghent system' is conditional upon his registration at the Labour Exchange. . . . The State subvention to unemployed benefit in France can only be claimed by Unions having an organized method of finding employment for their members."[1] In like manner, the administration of Part II of the National Insurance Act of the United Kingdom—the Part, that is, which deals with unemployment—is to be conducted in connection with, and through

the agency of, the national system of Labour Exchanges. No doubt, the practice of engaging workpeople at the Exchanges as yet prevails only over a narrow field. The task of searching for work has not been transferred to these institutions in a sufficient measure to destroy, or even as yet very greatly to mitigate, the danger that insurance against involuntary failures to find work may lead to failures which pretend to be involuntary but are really deliberate. Mr. Beveridge is describing the future, and not the present, when he writes: "Once the community or the insurance fund undertake the notification of work, the necessity of making relief allowances inadequate or degrading in order to drive men on the search for work disappears."[2] Furthermore, even apart from this, it must be remembered that the struggle to find work may include such things as the learning of a subsidiary trade, as well as mere search for work at a man's main trade, and that Labour Exchanges provide no protection against a slackening of effort in this direction. Nevertheless, we may rightly hold that, with the development of these Exchanges, the danger that simulation of unemployment will be brought about by the institution of insurance against that event, is likely to be less serious in the future than it has been in the past.

The bearing of this discussion upon the question how far in practice the idea of mutuality can help to steady consumption at a low cost is indicated by the sentence just quoted from Mr. Beveridge's book. When the conditions are such that an insurable event can be simulated easily, it is necessary to make the inducement to simulation small. This implies, in the first instance, that the benefit paid to unemployed persons must amount to a considerably smaller sum than the wage they would have earned had they continued at work. Thus, the British Engineers, who are among the aristocracy of labour, provide, in respect of a man who has belonged to the Union for ten years, a benefit of 10*s.* a week for the first 14 weeks' unemployment; 7*s.* for the next 30 weeks, and 6*s.* for further unemployment; and the benefit provided under the compulsory clauses of the British National Insurance Act is 7*s.* a week, commencing after the first week's unemployment, and extending for a maximum period of 15 weeks in any 12 months. The device of making benefits small, introduced in order to prevent simulation, cannot fail also to limit the efficacy of insurance against unemployment as a means of steadying consumption. For, although a certain limited measure of steadiness can be brought about

at a smaller cost than would otherwise have been necessary, the cost of evolving steadiness in excess of this limited measure is not affected at all. If we are content to prevent a man's consumption from falling in times of unemployment by more than, say, a third of its normal amount, the instrument of insurance enables us to do this fairly cheaply. But, if we wish to prevent his consumption from falling by more than, say, a twentieth, that instrument cannot at present be employed. As Labour Exchanges come to play a more important part, it will, however, become applicable to larger tasks.

This completes what it is necessary to say in connection with the first of the two inferences distinguished at the beginning of this chapter. It was there laid down that the evil consequences of unemployment are likely to vary in extent with the efficiency and economy of the arrangements which are available for enabling people to make their consumption steady in the face of a fluctuating wage income. These arrangements have now been examined. The second inference was to the effect that, given these arrangements, the evil consequences are likely to be less, the more closely the amount of resources actually devoted by workpeople to the task of promoting steadiness approximates to the amount that

a full understanding of their true interests would dictate. We now turn to the practical implications of this inference. If everybody was perfectly intelligent and self-controlled, there would, indeed, be nothing to discuss. The workpeople concerned would understand their interests fully and expend their resources in the best possible way. In real life, however, perfect intelligence and self-control are in all classes somewhat lacking, and in the working classes not less than in others. Experience has shown that, as a matter of fact, there is a tendency to let the future take care of itself, and not to make such preparations in good times as a dispassionate review of the probabilities would show to be desirable. This is partly due to the difficulty of grasping the reality of a distant prospect, to which all persons, and particularly those who are imperfectly educated, are liable, and partly to that essential vanity of human nature, through which a man, while fully recognizing the risks of a given venture to the average person, secretly assumes himself to be somewhat superior to the average. Be the causes, however, what they may, of the fact there is little doubt. "During the period of prosperity," writes Mr. Richard Bell, drawing on a wide range of experience, "when a large number of workers

are earning good wages, it is regrettable to think that they do not take care of the few extra shillings they then receive, but indulge so freely in drinking and gambling, so that, when they are meeting with a little depression, they are entirely at the mercy of the employers, and have to put up with circumstances which they otherwise would not." [3] In view of the fact thus indicated, there is *primâ facie* ground for holding that the evil consequences of unemployment might be reduced by legal enactments designed to induce workpeople to invest a larger proportion of their resources than they naturally tend to do in the work of rendering their consumption more steady. Since, as we have seen, insurance is, in general, the most economical instrument to this end, we may leave on one side the problem of State encouragement to individual saving, and consider only such encouragement to insurance.

Broadly speaking, two forms of encouragement are possible—namely, bounties and compulsion. Both of these may appear in various forms and degrees. Thus, bounties may merely consist in the supply, at the cost of the State, of statistical material and tariffs of risks. Or they may include the free provision of an institution through which insurance can be effected, thus affording to insurers a guarantee against fraud or insolvency. Or

again, they may include a small subsidy in money, such as that accorded in England to life-insurance by the rule exempting the premiums paid on such insurance from income tax. Or, finally, they may include a considerable subsidy, such as is accorded to Trade Union insurance against unemployment in those places on the Continent of Europe where the so-called " Ghent system " has been adopted. These subsidies have, in some cases, amounted to as much as fifty per cent. of the benefits paid. In like manner, encouragement by compulsion, if such a phrase is permissible, may assume various forms, according as the compulsion is conditional or unconditional, operated through localities or through trades, limited or unlimited in its range. The most important instance of this method is contained in that portion of the British National Insurance Act which renders insurance against unemployment compulsory upon all workpeople engaged in the building and engineering trades.

If it be granted, on the strength of what has been said in earlier paragraphs, that some form of encouragement to insurance against unemployment is likely to diminish the evils associated with unemployment and is, therefore, socially desirable, it becomes necessary to decide which of the two forms of encourage-

ment just distinguished is to be preferred. In order that this discussion may be conducted fairly, we must be careful to set in contrast with compulsion, not current examples of the method of bounties, but examples of a superior kind. For current examples are, all of them, so arranged that the amount of subsidy accorded is dependent on the expenditure which the subsidized societies make upon unemployment benefit. Under the Ghent plan the subsidy is some fixed proportion of this expenditure, and under the sections of the British National Insurance Act providing for State aid to voluntary insurance against unemployment it is also a fixed proportion—in this case limited to one-sixth. Arrangements of this kind are, however, open to two serious objections. The first and most obvious of them is that, other things being equal, larger benefit is likely to be paid by richer groups of working men, and that, therefore, the system involves State aid to different groups varying more or less *inversely* with their need. This is the exact contrary of what is socially desirable; for clearly, if any discrimination is allowed, the State aid should vary directly, and not inversely, with need. The second objection is that, other things being equal, highly fluctuating industries are likely to have a larger expenditure

upon unemployment benefit than steady industries. Bounties proportioned to expenditure will, therefore, confer upon them a differential advantage similar to that which would be conferred upon dangerous industries, if the State were to contribute to all industries in proportion to the compensation paid for accidents. But such differential encouragement of particular industries—unless, indeed, the particular industries are specially selected for encouragement on the ground that too little of the nation's resources is normally invested in them—is almost certain to involve economic waste and, therewith, social injury. Consequently, so far as encouragement by bounties involves differentiation of this kind, a strong ground for condemning it is revealed. It is, however, possible to devise a system of bounties that is not open to either of the above two objections. After the pattern of the State contribution towards sickness benefit in Germany, subsidies to unemployment benefit might be made proportional to the number of persons attached to any insurance fund, on condition that a certain minimum benefit was provided to men out of employment. It is this ideal form of encouragement by bounty, rather than current forms, that ought to be compared with encouragement by compulsion.

It is easily seen, however, that even this form suffers from two serious disadvantages. The first of them is that, in practice, bounties on insurance against unemployment can hardly (apart from compulsion) be given with effect in any industry except through a Trade Union. In all countries, however, even in industries where Unions are strong, large numbers of workpeople are usually to be found outside the Unions. "Consequently, unless the bounty is to be discriminating in its incidence, a rule must be made compelling these societies to allow outsiders, who will not become regular members, nevertheless, to become members in respect of the fund subsidized by the State. A rule of this sort prevails in Denmark and also in Norway, but it is obviously unsatisfactory, and likely to lead—as, indeed, in Norway it has led, —to considerable friction. A compulsory scheme is free from this difficulty."[4] The second disadvantage of the method of bounties is that, as a means of inducing people to insure, it is immensely less effective than compulsion. Even the large bounties frequently offered under the Ghent system, though they have extended the range of insurance operated by Unions already in existence, have had practically no effect in building up Trade Union insurance among

classes of workpeople hitherto innocent of it. "The great bulk of those claiming the public subvention are drawn from highly skilled and organized trades—such as printing, cigar-making, diamond working. The unskilled and semi-skilled occupations—in which the bulk of distress through unemployment is found in the United Kingdom—do not appear as yet to be touched by the Ghent system anywhere. In Strassburg the hope of reaching these classes in this way is expressly abandoned and annual relief works are contemplated as the only resource for the seasonal labourers." [5] In this respect compulsory insurance is obviously a more powerful instrument. "It does not, indeed, imply, as popular opinion supposes it to do, universal insurance. For, since in all systems, so far as they are concerned with unemployment, benefits lapse after a time, highly inefficient men must often become uninsured in spite of compulsion. The English National Insurance Act, for example, provides that no workman shall receive unemployment benefit for a number of weeks in excess of one-fifth of the number during which he has paid contributions. Still, it is plain that, though compulsion does not mean insurance for all workpeople covered by the compulsion, it must, in general, approach much more nearly

towards this goal than any system of bounties. We are not, indeed, entitled, on the strength of the above considerations, to infer, without reserve, that compulsion is, in this matter, necessarily superior to bounties. What people *think* good in such a case goes a long way towards determining what *is* good. And, in a country where the idea of State compulsion was violently unpopular, that fact might turn the scale in favour of the less efficient method of bounties. In fact, however, the unpopularity of compulsion appears to be imaginary rather than real, at all events among the workpeople of Western Europe. The device of combining with compulsion a certain element of State aid, which has been adopted in connection with other forms of insurance legislation in Germany, France and England, has apparently sufficed to make the principle of 'compulsion' reasonably palatable."[6] The British experiment of compulsory insurance against unemployment in the building and engineering trades may, therefore, be watched in a spirit of hope. It may well be that success there will warrant an extension of the same policy to other industries.

CHAPTER XIV

THE RELIEF OF THE UNEMPLOYED

In the preceding chapter it was tacitly assumed that the persons whose fortunes we were discussing consist exclusively of those who, taking one time with another, earn enough to support themselves in reasonably adequate conditions. Such persons, when unemployed, may be reduced to great poverty and distress, if they have not made provision in good times against the bad times that are to follow. By means of insurance against unemployment they can, in great part, overcome this risk without the need of assistance from other people. Those of them, who, for any reason, are not insured, will, indeed, on occasions, need assistance. When this happens, it is obvious that the giving of help should, so far as is practicable, be made conditional upon the consent of the assisted person to join an insurance society, and so to safeguard himself against any second similar lapse. So much being understood, we have now to consider the case of an entirely different class of persons. This class consists of workpeople, whose income is

so low and whose periods of unemployment are so long, that it is impossible for them to make provision unaided against bad times, without reducing their consumption in good times below what the general sense of the community considers to be a reasonable *minimum*. For these persons insurance against unemployment is not a sufficient remedy, and it is necessary for them to be assisted frequently by their more fortunate fellow-citizens. The essential element in their condition is, not that they suffer from time to time from unemployment, but that, over the aggregate period of their working lives, they are unable to earn enough for self-support. The problem which they present is the same as that presented by persons who are regularly employed, but whose wages are too low for a decent subsistence. The fact that their fortunes alternate, so that sometimes they earn a fair income and at other times earn nothing, is subordinate. Fundamentally, they are poor persons rather than irregularly employed persons. This is the essential point, and it is upon this basis that the following paragraphs will be built up.

Before more detailed discussion is undertaken, it may be laid down generally that assistance to persons who are poor on account of unemployment, as to those who are poor

from any other immediate cause, ought not to be organized in such a way as to exercise a demoralizing influence on the persons relieved. This rule leads immediately to strong condemnation of the mixed workhouse and the mixed casual ward, in which workmen genuinely in search of employment are liable to be contaminated by contact with wastrels and criminals. It leads also to a like condemnation of that system of Municipal Relief Works, which originated with a Circular issued by the Local Government Board in 1886 and was more elaborately organized under the Unemployed Workmen's Act of 1905. The intention underlying the Circular and the Act alike was to enable workmen, normally in regular employment but thrown out of work in some period of exceptional depression, to be assisted without incurring the stigma of pauperism. Mr. Gerald Balfour, in his evidence before the Royal Commission on the Poor Laws, said : " The unemployed for whom the Bill was intended were respectable workmen settled in a locality, hitherto accustomed to regular work, but temporarily out of employment through circumstances beyond their control, capable workmen with hope of return to regular work, after tiding over a period of temporary distress." [1] As a matter of fact, however, the Act contained

no definition that could confine relief to this type of workmen, and the Distress Committees set up by it have provided, in the main, for a very different type. In the words of the Poor Law Commissioners, the Act has "resulted in the wholesale and periodic relief of casual and chronically under-employed labourers under non-deterrent conditions."[2] Many of these men are of low character as well as of low industrial quality. Association with them upon relief works could hardly fail to be injurious to any workmen of a higher grade who might find their way to these works. In the absence of the disciplinary weapon of dismissal, and in view of the fact that the work must necessarily be of a general character, to which many of the men engaged are not accustomed, and for which it is difficult for any one to gauge their aptitude, deliberate loafing can hardly be prevented. An atmosphere of half-hearted effort, trickery and "ca-canny" almost necessarily results. The fact that the work itself is often more or less obviously made for the occasion adds to this evil influence upon morale. It may well be that receipt of relief in return for work done under such conditions will involve a lasting injury to a man's industrial character. A method of assistance that threatens these results is incapable of serious defence.

With this general preliminary, we may distinguish those poor persons who are incapable of independent self-support into two broad groups; those who cannot, and those who can, be raised into the self-supporting class. The former group may conveniently be considered first. It is the sad fact that there exist many inefficient persons whom no training is likely to render, in any appreciable measure, economically more valuable. Old men and women long past their prime cannot, practically speaking, be taught a new industry. Many cripples and persons suffering from certain results of accident or from chronic weakness, whether mental or physical, are in like case. It is clearly useless to attempt to develop new industrial powers in such persons. Their capacity, or lack of it, must be taken as something given and unalterable, and it must be recognized that more or less continuous, or, at all events, recurrent, help from others is necessary for them. Our problem is to determine what form this help, when given by public authority —and, for convenience, the discussion is confined to that case—can most advantageously assume.

The study of this problem has not infrequently been impeded by a popular opinion which is, in some quarters, strongly held.

It is maintained that persons in receipt of public assistance—and the argument applies equally whether that assistance is small and continuous or, as in the case of persons who need relief only when out of work, large and occasional—ought not to be allowed to offer their services to private employers in competition with independent labourers. The reason given for this contention is that subsidized workpeople, being enabled by the subsidy to undersell their rivals, tend both to deprive them of employment and to force down the general rate of wages. This argument mis-states the facts. Recent investigations tend to show that, when two people differ solely in that one does, and the other does not, receive a Poor Law subsidy, their wages are the same. Thus, Mr. Jones and Miss Williams, who conducted a special inquiry, on behalf of the Royal Commission on the Poor Laws, into the effect of out-relief on wages, write in their report : " We found no evidence that women wage-earners, to whose families out-relief is given, cut rates. Such wage-earners are invariably found working at the same rates of pay as the much larger number of women not in receipt of relief, who entirely swamp them. . . . We could find no evidence that the daughters of paupers accepted lower rates than others, or earned

less than others, because of their indirect relation to pauperism." [3] The truth of the matter is that, even if independent workpeople had to contribute nothing, either directly or indirectly, to the support of relieved persons, they would gain very little indeed by the removal of the competition of these persons. Since, in fact, they do help in one way or another to provide funds for the Poor-rate, it is probably to their advantage—even apart from the fact that they may themselves some day become dependent—as it is certainly to the advantage of the community as a whole, that relieved persons should earn by industry as large a part as may be of the money-cost of their maintenance. Now, it is well known that, if persons are merely given tasks by the public authority assisting them, whether inside or outside an institution, there is practically no chance of any effective work being obtained from them. Groups of inefficient persons working together, without the cohesion that a nucleus of competent workers would afford, and working too under the ægis of a relieving authority, never do, and, so far as can be foreseen, never will, accomplish much. The same men, however, scattered and employed as parts of the labour force of a number of private firms under normal industrial conditions may really,

in their small way, serve society, and earn a reasonable proportion of the resources they consume. Nor is this the whole of the benefit that results from their work. If they are forbidden to come forward in boom periods, fluctuating industries will need to keep larger reserves of labour attached to themselves, and ready to be called out in these periods, than is necessary if a part of the function of a reserve can be performed by the State-assisted poor. A system, under which these persons are available for the needs of private industry in periods of keen demand, serves to lessen the fluctuations in demand to which *normal* workpeople are exposed. It follows that the organization of relief ought to be such that relieved persons are withdrawn from private industry to the least possible extent, and that they immediately return there, whenever the conditions of demand permit.

At this point a further distinction must be made. Among poor persons incapable of self-support and also incapable of profiting appreciably from industrial training, one part earn, *when they are at work*, considerably more than a reasonable subsistence, but a second part never do this. The problem of organizing relief to the former of these groups is closely related to that of organizing ordinary

insurance against unemployment. As was pointed out in the last chapter, if the benefit paid is fixed at a sum considerably below the normal wage of the workpeople affected, it will not have any important effect, especially when worked in conjunction with a National system of Labour Exchanges, in causing people to fall out of work deliberately. This consideration suggests that, for that group of poor persons with whom we are now concerned, relief may be organized, with great advantage, under the guise of State aid to compulsory insurance. Relief so organized has not the pauperizing tendency of direct relief, and it has the further advantage of leaving the recipients of it in touch with normal industry and ready to step into any openings that may present themselves. The main objection to this policy is that mentioned in the last chapter, namely, that it involves the payment of differential bounties favouring certain industries relatively to others. This objection can, however, be got over, if the amount of the bounty is so arranged as to balance the net payments made from the insurance funds of different trades to those inefficient members whom it is decided to assist. On this plan the normal men in an industry are, in effect, repaid by the State what they themselves pay to the inefficients,

and there is no inducement either to normal men or to inefficients to attach themselves to one sort of industry rather than to another. To achieve an arrangement of this kind it is evident that subsidies proportioned to benefit will not serve, but that a direct and special calculation of the appropriate grant must be made, and must be periodically revised, in respect of each separate industry.

This plan, though it may work satisfactorily as regards inefficient men obtaining intermittent employment in trades paying good wages, is not applicable to those who, even when at work, earn a bare subsistence. In this case it is not practicable for the relief that is paid to them when they are unemployed, whether it appears in the guise of insurance benefit or in a more direct form, to be considerably below their normal wage. This defence against the danger that the prospect of it will cause men to fall out of work deliberately is, therefore, not available. We have, in fact, to do with that class of persons, the treatment of whom constituted the central problem set before the Poor Law Commissioners of 1832. The Commissioners' solution was that relief to such persons, if able-bodied, should be given in conjunction with definitely deterrent conditions, including some form of labour under disciplinary

control. This solution, for the limited class of persons now under discussion—a class, be it noted, which, since 1832, has greatly diminished in relative importance—seems still to hold the field.

From these two divisions of poor persons incapable of self-support and not likely to benefit from industrial training, we may pass to the second principal group distinguished on p. 232, namely, those who, though not at the time self-supporting, seem capable, at a reasonable cost to the public purse, of being trained and educated into normal independent citizens. It is plainly to the general interest that such persons should be so trained and educated. For a time, no doubt, the cost would be larger than that involved in mere occasional relief, but it would be a temporary cost, instead of a lasting one. It could, therefore, often be undertaken with profit, even if the non-economic advantages of an independent life, as against one sustained by public or private charity, are left out of account. Practical recognition is given to this fact in the British National Insurance Act. The hundredth clause of that Act provides that, if, after test and inquiry, " the insurance officer considers that the skill or knowledge of a workman (who repeatedly falls out of employment) is defective, but that there is

a reasonable prospect of the defect being remedied by technical instruction, the insurance officer may, subject to any directions given by the Board of Trade, pay out of the unemployment fund all or any of the expenses incidental to the provision of the instruction, if he is of opinion that the charge on the unemployment fund in respect of the workman is likely to be diminished by the provision of the instruction." The class of persons to whom this policy is especially applicable are workpeople not too far advanced in years, whose special skill has been rendered useless by some invention enabling the work they have learnt to do to be performed more economically by unskilled labour in attendance upon an automatic tool. They include too those persons whom accident or illness has deprived of some specialized capacity, as well as those who are the victims of permanent changes of fashion of a kind that could not practically be foreseen. To assist these persons by mere money contributions is to abandon hope of any real cure of their misfortunes, and to render them, in effect, permanent pensioners of the State. But, in teaching them a new trade in place of the one they have lost, there is good prospect of a real remedy, and not a mere palliation. And the case is the same with those persons,

if in practice they can be distinguished, who, with an aptitude for one sort of occupation, have accidentally, or through perversity, drifted into another. In this category, doubtless, should be included men bred in the country and well fitted for rural life, who have been enticed by the glamour of some city to abandon their proper vocation. For such men a year's training on a farm colony, like that established by the Salvation Army at Hadleigh, may well provide industrial regeneration. It is, however, essential that the men selected for this type of training shall be carefully chosen from among persons with a real turn for agricultural life. Frequently this has not been done. On the continent of Europe, according to a recent report in the United States *Bulletin of Labour:* "The Farm Colonies, as distinguished from penal workhouses, do not in general receive the genuine unemployed, *i. e.* those who are out of work against their will. The great majority of the frequenters are the shiftless loafers, who, in the severer seasons of the year or in times of special distress, seek the shelter they offer rather than expose themselves to continued want or run the risk of entering the penal workhouse." [4] Such men, no doubt, may benefit for a time from the healthy conditions of country life, but

nobody would expect them to be restored thereby to capacity for independent self-support. The comparative failure which has attended recent experiments in farm colonies does not, therefore, afford a decisive argument against further experiments, or justify any condemnation of these institutions when used as training-grounds for temporary unemployed persons well fitted by nature for agricultural occupations. It should be added that the provision of training and education in any of the above ways is not incompatible with "deterrence," as required by our first rule. On the contrary, to a man wishing to be idle, the prospect of training is in itself highly deterrent. The knowledge that he cannot obtain public relief except at the cost of being "improved" may be expected to check shirking at least as effectively as the prospect of disfranchisement or of being called upon to perform a small task of work.

CHAPTER XV

CONCLUSION

It will be recollected that the definition of Unemployment which we decided, in the

second chapter, to adopt, diverges slightly from the current use of terms. Broadly speaking, and subject to certain reservations and explanations, it is equivalent to what would be generally understood by "involuntary idleness," thus taking account of the time lost, not only by persons definitely out of a job, but also by persons working "short-time." The whole of the preceding discussion has been conducted on the basis of this definition. In bringing it to a conclusion I propose to summarize, from the standpoint of one seeking "remedies" for unemployment, the more important of the results that have been achieved.

In the first place after a discussion of some mistaken popular views, it was shown that, even in a perfectly stationary state, unemployment is likely to be present, if any workpeople have to be paid a rate of wage artificially raised above that which the free play of economic forces tends to bring about. From this general proposition two inferences were drawn. The one is that any attempt on the part of a particular Trade Union to force up the wages of its members above those current in the general run of similar occupations is a cause of unemployment, and the abandonment of that policy is, *pro tanto*, a remedy for it. The other is that, when humanitarian

considerations lead, in effect, to the establishment of a minimum wage below which no worker will be engaged, the existence of a large body of persons not worth this minimum wage is a cause of unemployment; and anything which improves the quality of the lowest grade of workers, such as the discouragement of blind alley occupations and the provision of increased facilities for education and training, is, *pro tanto*, a remedy. This latter point, in particular, is one of great importance.

In the second place, it was shown that, when, as is, of course, the case in real life, conditions are not stationary, the occurrence of unemployment will not be obviated merely by the circumstance that the average wage-rate over a long period is nowhere raised artificially above the rate which competitive conditions tend to bring about. On the contrary, some measure of unemployment will necessarily be present, so long as wage-rates are lacking in plasticity, and fail to move up and down about their average in conformity with the movements that take place, from time to time, in the demand, now for one kind of labour and now for another. It follows that the volume of unemployment is likely to be diminished by any device that renders wage-rates less rigid than the mutual suspicions of employers and

employed frequently cause them to be. The establishment of Conciliation Committees, particularly when they are free to employ the machinery of sliding-scales, or some other less mechanical device for facilitating the rapid adjustment of wage-rates to varying conditions, thus constitutes a further remedy for unemployment.

In the third place, it was shown that the average volume of unemployment in any country will be larger, the more widely the demand for labour in the industries carried on in that country is liable to fluctuate. Whatever, therefore, tends to diminish industrial fluctuations tends also, in the end, to lessen the volume of unemployment. Among the many remedies which this consideration suggests, attention was called in particular to the shortening of commercial credits, the more wide-spread adoption among Bankers of an enlightened policy in the matter of loans, the modification of the currency system in such a way as to render general prices more stable, and the introduction into fundamental industries, where a stoppage of work would interfere seriously with the conduct of related industries, of the spirit and machinery of industrial peace.

In the fourth place, it was shown that, since the downward fluctuations, which occur in

the demand for labour in some occupations and places, are often partially offset by upward fluctuations occurring at the same time in other occupations and places, the volume of unemployment is likely to be diminished by any device which enables workpeople to ascertain where work is wanted, and to move freely towards available vacancies. Labour Exchanges are a device of this kind. Their efficacy is especially great when they are organized as an interconnected national system, and when they act, not merely as bureaus of information, but also as centres for the actual engagement of hands. If the great body of employers can be induced to make use of them for this purpose, they are likely to develop into an agency of very considerable power.

Finally, in the eleventh chapter, it was shown that public authorities are in a position somewhat to lessen the fluctuations that occur in the demand for labour, and hence to diminish unemployment, both by fitting that part of their own demand for goods and services, which is necessarily occasional, into the interstices of the general demand, and also by avoiding unnecessary ups and downs in that part of their demand which is, or can be made, continuous. These practices constitute remedies for unemploy-

ment in all circumstances. The policy, which has recently found advocates, of deliberately making public demands vary in such wise as to compensate variations in private demands, only constitutes such a remedy, provided that certain conditions as regards the mobility of labour are fulfilled.

The various devices which have been mentioned under the five preceding heads are all, in greater or less degree, remedies for unemployment, and the adoption of any one of them would do something towards diminishing the volume of unemployment. At this point, however, it is necessary to add that not even the adoption of all of them together would avail to *abolish* unemployment. Consequently, besides investigating *remedies*, in the sense of means to limit the amount of unemployment, it has also been found necessary to investigate *palliatives*, in the sense of means to alleviate the evil consequences to which a given amount of unemployment leads. Among these palliatives the most important are the device of meeting periods of depression by organized short-time instead of the dismissal of hands, and the device of insurance against unemployment. Both these devices may prove highly beneficial when applied to the case of workpeople who are able, on the average of good and bad times together, to

earn a reasonable livelihood; and both of them appear worthy of encouragement by the State. Obviously, however, they cannot of themselves solve the problem of those highly inefficient workers, whose earnings, on the average of a long period, fall short of the minimum requirements deemed by the general sense of the community to be essential. Persons in this position are unable, in any event, to fend for themselves, and must, therefore, be assisted in one way or another—whether it be by subsidies through insurance funds, by carefully controlled relief or by special training under disciplinary conditions—at the cost of national funds. In Chapter XIV certain general considerations relevant to their treatment were advanced. The problem they present is, however, primarily a problem of poverty rather than of unemployment, and it lies, in the main, outside the scope of this volume. Our task, therefore, is now completed. An attempt has been made to review in the white light of science conditions whose continuance exacts a heavy toll of suffering. To denounce those conditions rhetorically—even eloquently—would have been easy. It has seemed, however, more valuable, and, perhaps, not less humane, to forge, if that may be, weapons wherewith to combat them.

NOTES

CHAPTER II

[1] Cf. [Cd. 5991], p. 3.

[2] Cf. First Report on the Proceedings under the National Insurance Act, Part II. (Cd. 6965], *passim*.

[3] Report on the cost of living in German towns [Cd. 4032], p. 523.

[4] Royal Commission on Poor Laws, *Appendix*, Vol. IX. p. 637*b*.

[5] [Cd. 6965], p. 24.

[6] Committee on Distress from Want of Employment, *Third Report*, Q. 4564.

[7] Cf. Beveridge, *Unemployment*, p. 21.

CHAPTER III

[1] *Bulletin of the United States Bureau of Labour*, No. 79, pp. 906–7.

[2] *Economic Journal*, 1910, p. 518.

[3] Leroy-Beaulieu, *La Répartition des Richesses*, p. 612.

CHAPTER IV

[1] For a detailed study of the facts upon which the statements in the text are based, cf. Pigou, *Protection and Preferential Import Duties*, pp. 48–55.

CHAPTER V

[1] Pigou, *Principles and Methods of Industrial Peace*, p. 48.
[2] Pigou, *Wealth and Welfare*, pp. 299–301.
[3] Cf. Raynaud, *Vers le salaire minimum*, p. 335.
[4] Royal Commission on the Poor Laws, *Majority Report*, p. 150.
[5] *Ibid.*, *Appendix*, Vol. XX. pp. 23–7.
[6] *Ibid.*, p. 222.
[7] *Report of the Departmental Committee on the Employment of Children Act*, 1903 [Cd. 5229], p. 12.
[8] Cf. *Third Report of the Standing Committee on Boy Labour in the Post Office* [Cd. 6959], *passim*.
[9] Royal Commission on the Poor Laws, *Majority Report*, pp. 224–5.
[10] Barnett, *Towards Social Reform*, p. 99.
[11] Royal Commission on the Poor Laws, *Minority Report*, p. 1191.
[12] *Ibid.*, *Appendix*, Vol. XX. p. 30.

CHAPTER VI

[1] [Cd. 4032], p. 521.
[2] Webb, *Industrial Democracy*, p. 577.
[3] [Cd. 5366], p. xxi.
[4] For a detailed discussion of sliding-scales, cf. Pigou, *Principles and Methods of Industrial Peace*, Part II. Ch. III.
[5] [Cd. 5366], p. 32.
[6] *Ibid.*, p. 27.

CHAPTER VII

[1] If the quantity of labour demanded at the average wage-rate in one industry in successive periods is $(A + a_1)$, $(A - a_2) \ldots (A + a_n)$, the average being A; in a second industry $(B + b_1)$, $(B - b_2) \ldots (B + b_n)$,

the average being B; in a third industry $(C + c_1)$, $(C - c_2)$ . . . $(C + c_n)$, the average being C; the fluctuating character of the demand for labour in the three industries together is measured, on the definition given in the text, by

$$\frac{a_1 + a_2 + \ldots a_n}{n} + \frac{b_1 + b_2 + \ldots b_n}{n} + \frac{c_1 + c_2 + \ldots c_n}{n}$$

[2] Bowley, *National Progress in Wealth and Trade*, pp. 1–2.

CHAPTER VIII

[1] Piatt Andrews, *Quarterly Journal of Economics*, 1906, p. 351.
[2] Pigou, *Wealth and Welfare*, p. 401.
[3] Bagehot, *Lombard Street*, p. 199.
[4] Irving Fisher, *The Purchasing Power of Money*, p. 342.

CHAPTER IX

[1] [Cd. 5366], p. 137.
[2] *Ibid.*, p. 34.
[3] *Bulletin of the United States Bureau of Labour*, No. 60, p. 421.
[4] *Ibid.*, No. 76, p. 666.
[5] [Cd. 6603], p. 17.
[6] Pigou, *Principles and Methods of Industrial Peace*, p. 209.

CHAPTER X

[1] Beveridge, *Unemployment*, p. 209.
[2] Royal Commission on the Poor Laws, *Minority Report*, p. 1125.
[3] Dearle, *Unemployment in the London Building Trade*, p. 133.

[4] Royal Commission on the Poor Laws, *Minority Report*, p. 1125.
[5] [Cd. 2304], p. 65.
[6] *Ibid.*, p. 93.
[7] An instructive account of the laws, which different countries have found it necessary to introduce in order to check the abuses arising in connection with private Labour Exchanges, is contained in Becker and Bernhardt's *Die gesetzliche Regelung der Arbeitsvermittlung in den wichtigsten Länden der Erde.*
[8] Transvaal Indigency Commission, *Report*, p. 135.
[9] Royal Commission on the Poor Laws, *Majority Report*, p. 403.
[10] Beveridge, *Contemporary Review*, April, 1908, p. 392.
[11] Cf. *National Insurance Act*, § 99 (1).
[12] Cf. Schloss, *Economic Journal*, 1907, p. 78; also *Bulletin de l'Association pour la lutte contre le chômage*, September 1913, p. 839.
[13] Pigou, *Wealth and Welfare*, pp. 112–13.
[14] De Rousiers, *La Question Ouvrière en Angleterre*, p. 334.
[15] [Cd. 3864], p. 284.
[16] Pigou, *Wealth and Welfare*, p. 126.

CHAPTER XI

[1] Transvaal Indigency Commission, *Report*, p. 129.
[2] Royal Commission on the Poor Laws, *Minority Report*, p. 1099.
[3] Pigou, *Wealth and Welfare*, pp. 480–1.
[4] Royal Commission on the Poor Laws, *Minority Report*, p. 1196.
[5] *Ibid.*, p. 1185, footnote.

CHAPTER XII

[1] Cf. Committee on Distress from Want of Employment, 1895, *Third Report*, Q. 4541.
[2] Chapman, *Unemployment in Lancashire*, p. 54.

CHAPTER XIII

[1] [Cd. 5068], p. 737.
[2] Beveridge, *Unemployment*, p. 229.
[3] Rowntree, *Betting and Gambling*, p. 217.
[4] Pigou, *Wealth and Welfare*, p. 418.
[5] [Cd. 5068], p. 732.
[6] Pigou, *Wealth and Welfare*, pp. 418–19.

CHAPTER XIV

[1] Royal Commission on the Poor Laws, *Majority Report*, p. 386.
[2] *Ibid.*, p. 394.
[3] *Ibid.*, *Appendix*, Vol. XXXVI. pp. vi and vii.
[4] *Bulletin of the United States Bureau of Labour*, No. 76, p. 788.

BIBLIOGRAPHY

THE most elaborate English book devoted exclusively to the general problem discussed in this volume is Mr. Beveridge's *Unemployment, a Problem of Industry.* It is a work deserving study by all interested in the subject. And the same remark applies to the long sections dealing with *Unemployment* in both the *Majority Report* and the *Minority Report* of the Royal Commission on the Poor Laws ([Cd. 4499].)

Information on statistical matters and on the methods adopted for dealing with the unemployed in a number of foreign countries is made available in the memoranda prepared by the Board of Trade for the Royal Commission on the Poor Laws, and printed in the *nineteenth* Appendix volume to their Report ([Cd. 5068].) Further information on these subjects may be found in Mr. Schloss' *Report on Foreign Agencies and Methods for dealing with the Unemployed* ([Cd. 2304],) in one of the Memoranda printed in the second Blue-book on *British and Foreign Trade and Industry* ([Cd. 2337],) and in the 76th number of the *Bulletin of the United States Bureau of Labour.*

Continental experience in the matter of insurance against unemployment is discussed in an interesting manner in Mr. Gibbon's work entitled *Unemployment Insurance.* The causes of industrial fluctuations are examined in Mr. Burton's work on *Financial Crisis,* and the problem of industrial peace in Mr. Gilman's *Methods of Industrial Peace* and my own *Principles and Methods of Industrial Peace.* Three excellent articles by Professor H. S. Jevons in the *Contemporary Review* of May, July and August, 1909, discuss the relation of unemployment to Trade Union policy and the bearing of recent evidence upon the late W. S. Jevons' sun-spot theory of crises. The general scheme of analysis followed in the present volume is worked out more fully in my work on *Wealth and Welfare,* where the special problem of unemployment is treated as a subordinate part of a larger and more general problem.

INDEX

Andrews, Prof. Piatt, 114, 115
Askwith, Sir George, 140

Bagehot, 119
Balance of Trade, 41
Balfour, Gerald, 230
Banks, policy of, 119
Barnett, Canon, 73
Beaulieu, Prof. Leroy-, 74
Bell, Richard, 220
Beveridge, 24, 26, 61, 151, 159, 217
Bimetallism, 122
Board of Trade Returns, 20
Bournville, 72
Bowley, Prof. A. L., 106
Brooklands Agreement, 132
Buxton, Sidney, 171

Cadbury Bros., Ltd., 72
Chapman, 118, 180, 200
Clarke, V. S., 139
Collective Agreements, Report on, 87
Collective bargaining, 131
Compulsory Arbitration, 54, 141, 145
Compulsory Insurance, 226
Conciliation, 132
Conciliation Act, 136
Consumption goods, 111
Credit, 117
Cyclical fluctuations, 112

Dearle, 153
Dismissal of hands, 19, 192, 197, 200
Distress Committees, 231
Dock labourers, 199

Employment of Children Act, 71
Expectation of Earnings defined, 54

Farm Colonies, 240
Fisher, Prof. Irving, 125, 126, 127
Fluctuations of income, 31
Fluctuations of industry, 93
Foreign trade, 40

Ghent system, 216, 222

Hadleigh Farm Colony, 240

Industrial Disputes Investigation Act (Canada), 138
Instrumental goods, 110
Insurance against Unemployment, 203
"Involuntary Idleness," 18

Jevons, 115, 123
Jones, 233

Labour Exchanges, 152, 155, 157, 215, 245
Labour Gazette, 129, 154

Mahaim, 168
Making for stock, 100
Mediation, 135
Methods of engagement, 57
Minimum wage, 64
Mixed workhouse, 230
Mobility of labour, 77, 146
Monetary systems, 120
Municipal Relief Works, 230

National Insurance Act, 19, 158, 214, 216, 218, 222, 226, 238
New Zealand Arbitration Law, 62

Out relief, 233
Overtime, 186

Piece wages, 61, 197
Place mobility, 161

Plasticity of wage rates, 76
Poor Law Commission 1832, 237
Poor Law Commission 1909, 69; Majority Report, 69, 159, 180. 231; Minority Report, 74, 183, 187

Preference lists, 58
Prison-made goods, 36
Purchasing power of money, 79, 122

Relief of the Unemployed, 228
Relief works, 230
Rigidity of wage rates, 93
Rousiers, de, 164

Sadler, Principal, 73
Seasonal fluctuations, 108
Short time, 17, 192, 197, 200
Sliding scales, 84
Slow workers, 62
Smith, Adam, 161
Smith, Sir H. Llewellyn, 25, 34
State action, 170
Stationary State, 52
Street selling, 70
Sunspots, 116

Tabular standard of value, 123
Telegraph boys, 71
Time wages, 61, 197
Transformations of industry, 104
Transvaal Indigency Commission, 158, 171
Trade Union Returns, 21

Unemployed Workmen Act, 230
Unemployment, definition of, 16
Unemployment, distribution of, 191
Unemployment, measurement of, 18

Voluntary Arbitration, 134

Wages Boards, 54, 83
Webb, Mr. and Mrs., 85
Williams, Miss, 233
Work fund fallacy 36, 49

PRINTED IN GREAT BRITAIN BY RICHARD CLAY & SONS, LIMITED, BUNGAY, SUFFOLK.

HA
5706
.25

THE LIBRARY
UNIVERSITY OF CALIFORNIA
Santa Barbara
Goleta, California

THIS BOOK IS DUE ON THE LAST DATE
STAMPED BELOW.

MAY 3 1965

0m-3,'59(A552s4)476

3 1205 00168 7027

UC SOUTHERN REGIONAL LIBRARY FACILITY
AA 000 856 111 0